ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

EARLY DEVELOPMENT EXPERIENCE OF THE NEWLY INDUSTRIALIZING ECONOMIES:

LESSONS FOR THE LEAST DEVELOPED COUNTRIES OF THE ASIAN AND PACIFIC REGION

UNITED NATIONS

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

EARLY DEVELOPMENT EXPERIENCE OF THE NEWLY INDUSTRIALIZING ECONOMIES:

LESSONS FOR THE LEAST DEVELOPED COUNTRIES OF THE ASIAN AND PACIFIC REGION

UNITED NATIONS
New York, 1995

ST/ESCAP/1555

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Opinions expressed are those of the authors and do not necessarily reflect the views of the United Nations or of the Government of any of the countries or territories mentioned in the studies.

Mention of any firm or licensed process does not imply endorsement by the United Nations.

PREFACE

The Asian newly industrializing economies (NIEs) do not form a homogenous group. There were considerable differences among them at the initial stages of development in terms of physical and economic characteristics. The considerable research and debate on the development experience of the NIEs has failed to discern any single model, formula or standard prescription that has been decisive in their economic success.

Nevertheless, there is a consensus that the Asian NIEs do share some common underlying factors that contributed to their rapid growth. Interest in these core policies was heightened as countries in South-East Asia, notably Indonesia, Malaysia and Thailand, achieved remarkable progress by following similar policies.

The adoption of liberalization measures, outward-looking policies and market-oriented reforms in the slower growing economies of the region, and particularly in the least developed countries, has generated further interest in the relevance of the development experience of the NIEs. This study, prepared with generous financial assistance from the Government of the Republic of Korea, examines the lessons that can be drawn from the early development experience of the Asian NIEs for six selected least developed countries in the region. Among them are two countries (Lao People's Democratic Republic and Myanmar) from South-East Asia, two (Bangladesh and Nepal) from South Asia, while the remaining two (Vanuatu and Samoa) are from the Pacific subregion.

The study stresses that key policy measures and strategies adopted in the NIEs are of great relevance for accelerating growth in the least developed countries in the region. These include the high priority accorded to agricultural development in the larger NIEs such as the Republic of Korea and Taiwan Province of China, outward orientation and export-led industrialization, prudent policies to maintain macroeconomic stability, heavy emphasis on education, acquisition of skills and training and human resources development in general, and the importance attached to technology acquisition and adaptation, as well as some non-economic factors that encourage thrift, hard work, effective governance and national consensus in pursuing economic goals.

The authors in this study share an optimistic outlook with regard to the possibilities of replicating the experience of the NIEs in the least developed countries. They, however, stress that the unique economic and social situation of the least developed countries would need to be kept in view in designing policies and that these countries should also consciously avoid the mistakes made by NIEs in their pursuit of rapid economic growth.

CONTENTS

		Page
Preface		iii
I.	**THE RELEVANCE OF AND LESSONS OF THE EARLY DEVELOPMENT EXPERIENCE OF NEWLY INDUSTRIALIZING ECONOMIES WITH SPECIAL REFERENCE TO THE LAO PEOPLE'S DEMOCRATIC REPUBLIC AND MYANMAR**	1
A.	Lao People's Democratic Republic and Myanmar in the Asian and Pacific perspective	1
B.	Reasons for the dynamic growth of the NIEs	3
(i)	Export orientation	3
(ii)	Capital investment	6
(iii)	Human resources	6
(iv)	Knowledge and technological progress	8
(v)	Institutional conditions	9
(vi)	Social-cultural variables	9
(vii)	Generalizing successful experiences	10
C.	Why are the Lao People's Democratic Republic and Myanmar lagging behind?	11
(i)	Exogenous explanations	12
(ii)	Endogenous explanations	15
D.	The challenge of catching up	22
(i)	Spillovers of Asia-Pacific growth	23
(ii)	Subregional cooperation for growth	24
(iii)	External sector policies	26
(iv)	The imperative of macroeconomic balance	31
(v)	Liberalizing the trade regime	34
(vi)	Reforming the exchange system	34
(vii)	Promoting foreign investment	35
(viii)	Positive government intervention	38
Concluding remarks		41

CONTENTS *(continued)*

Page

II. THE RELEVANCE OF AND LESSONS TO BE DRAWN FROM THE EARLY DEVELOPMENT EXPERIENCE OF HONG KONG AND TAIWAN PROVINCE OF CHINA FOR BANGLADESH AND NEPAL 43

A. Characteristics and key economic issues of Bangladesh and Nepal 43

(i) General features 43

(ii) Industrialization 45

(iii) Macroeconomic management 45

(iv) Human resources development 46

(v) Saving and investment 46

B. The growth models of Hong Kong and Taiwan Province of China 48

C. Policy recommendations for Bangladesh and Nepal 52

(i) Agriculture 52

(ii) Industrial development strategy 55

(iii) Investment and savings 56

(iv) Labour market conditions and human resources development 62

(v) Macroeconomic management 65

III. THE RELEVANCE OF AND LESSONS TO BE DRAWN FROM THE EARLY DEVELOPMENT EXPERIENCE OF THE REPUBLIC OF KOREA FOR VANUATU AND SAMOA 67

A. Governance and the public sector 73

B. Promotion of foreign investment 75

C. Industrial policies 77

D. Macroeconomic management 80

E. Science and technology 83

F. Summary and conclusions 86

CONTENTS *(continued)*

LIST OF TABLES

		Page
I.1	Lao People's Democratic Republic and Myanmar and other Asia-Pacific economies	4
I.2	Lao People's Democratic Republic and Myanmar and other Asia-Pacific economies: social indicators	5
I.3	Distribution of GDP by sectors: newly industrializing economies, Lao People's Democratic Republic and Myanmar	7
I.4	Savings and investment of newly industrializing economies, Lao People's Democratic Republic and Myanmar	17
I.5	External financial resources: Lao People's Democratic Republic and Myanmar	19
I.6	Quantitative aspects of human resources: newly industrializing economies, Lao People's Democratic Republic and Myanmar	19
I.7	Qualitative aspects of human resources: newly industrializing economies, Lao People's Democratic Republic and Myanmar	21
I.8	Sectoral distribution of GDP in Lao People's Democratic Republic	28
I.9	Sectoral distribution of GDP in Myanmar	28
I.10	Exports of Lao People's Democratic Republic and Myanmar	29
I.11	Myanmar: exports by type of commodity	30
I.12	Approved foreign investment, Lao People's Democratic Republic, 1988-1991	36
I.13	Approved foreign investment in Myanmar	37
II.1	Bangladesh and Nepal: basic economic indicators	44
II.2	Bangladesh and Nepal: basic social indicators	47
II.3	Gross domestic savings in selected Asian economies	57
II.4	Financial deepening – M_2/GDP	57
II.5	Real deposit interest rates, 1966-1983	58

CONTENTS *(continued)*

Page

LIST OF TABLES

II.6 Primary school enrolment ratios, 1960-1985 63

II.7 Adult literacy rates, 1960-1985 63

II.8 Secondary and tertiary education enrolment ratios, 1960-1985 64

III.1 Major economic indicators of the economy of the Republic of Korea 70

III.2 Vanuatu: gross domestic product by industrial origin, 1983-1987 71

III.3 Samoa: gross domestic product by industrial origin, 1984-1986 72

I. THE RELEVANCE OF AND LESSONS OF THE EARLY DEVELOPMENT EXPERIENCE OF NEWLY INDUSTRIALIZING ECONOMIES WITH SPECIAL REFERENCE TO THE LAO PEOPLE'S DEMOCRATIC REPUBLIC AND MYANMAR*

A. Lao People's Democratic Republic and Myanmar in the Asian and Pacific perspective

The Asian and Pacific region is vast. It includes developed countries such as Japan, very large countries such as China, the newly industrializing economies (NIEs) consisting of Hong Kong, Republic of Korea, Singapore and Taiwan Province of China, the Association of South-East Asian Nations (ASEAN) comprising Brunei Darussalam, Indonesia, Malaysia, the Philippines and Thailand, and many others in South and Central Asia and in the Pacific.

As Asia's first industrial state, Japan today is clearly a world-class economic superpower, second only to the United States of America. Dubbed "Asia's four little dragons", the NIEs are arguably the most dynamic economies in the region. Poor in natural resources and scarce in land, the NIEs have consistently sustained near double-digit rates of economic growth for the past three decades, based primarily on the rapid expansion of manufactured exports. With their combined population of only 1.4 per cent of the world total, they have succeeded in capturing a staggering share of 8-9 per cent of the world's export markets.

The ASEAN (excluding Singapore) economies are also impressive growth performers. They are basically resource-rich economies, with their past economic growth derived mainly from the export of primary commodities and natural resources. The ASEAN economies started to build up their growth momentum in the early 1970s, on the back of the world's raw materials boom. In recent years, they have intensified their industrialization and made a successful transition from import substitution to export expansion, with manufactured exports constituting the main engine of their economic growth. Malaysia and Thailand, in particularly, are rapidly developing into second tier NIEs.

China stands out in the group not just as a giant economy with a large development potential, but also as a dynamic "transitional economy", moving rapidly away from central planning to the market system. After the introduction of economic reforms and the open-door policy from 1978, the Chinese economy has chalked up double-digit rates of growth.

---

* This paper has been prepared by Professor John Wong, Director, Institute of East Asian Political Economy, Singapore. The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the institution with which the author is associated.

Suffice it to say that virtually all these economies have displayed dynamic economic growth, with several of them having broken the world's economic growth records. A recent World Bank report has highlighted that while it had taken England, the world's first industrial state, 58 years from 1780 to double its per capita income, it has taken Japan from 1885 only 34 years; Indonesia from 1968, 17 years; Republic of Korea from 1966, 11 years; and China from 1977, 10 years.[1]

The World Bank did not report on the startling economic performance of Taiwan Province of China. But it may be noted that Taiwan Province of China increased its per capita income 5 times in the 1970s and 3 times in the 1980s – it had in fact from 1985 taken only 6 years to double its per capita income.[2]

Presently, South China is booming. If China's Guangdong province (which has a population of over 60 million) were singled out for attention, we would note that it had taken Guangdong even less time to double its per capita income, i.e., from 1988 only 3 years![3]

In sharp contrast, the Lao People's Democratic Republic and Myanmar have been classified by the United Nations as two of the region's least developed countries on account of their low per capita income and poor overall economic performance. The Lao People's Democratic Republic, with a population of 4.3 million, is a small land-locked country, although not really small in terms of its total geographic area, which is more than six times that of Taiwan Province of China. With its per capita income of US$ 220 for 1991, the country undoubtedly shares many structural characteristics in common with the other least developed economies, such as poor infrastructure, low level of domestic savings and human resources development, weak linkages with the global economy, and other institutional and social constraints.[4]

However, Myanmar, with its 43 million population, is a fairly large country, which is also endowed with a rich and diverse natural resource base like the other South-East Asian economies. Myanmar on the surface does not quite fit the category of a least developed country, which are typically small, isolated and fragmented, and poor in both human and natural resources. In terms of historical development and resource endowment, Myanmar is much akin to the other South-East Asian countries which today constitute ASEAN. They all started off after the war as primary exporting economies. But since the 1960s, they followed different paths of

---

1 World Bank, *World Development Report 1991* (New York, Oxford University Press, 1991), pp. 12-13.

2 Computed from Taiwan Province of China data contained in Executive Yuan, *The Statistical Yearbook* (Taipei, various issues). It should be noted that Taiwan Province of China's GNP increases in the later part of the 1980s has been exaggerated by the appreciation of the NT dollar.

3 *Guangdong Tongji Nienjian* (Statistical Yearbook of Guangdong 1991), Beijing.

4 See United Nations, *Least Developed Countries of Asia and the Pacific Region: Development Performance and Prospects* (New York, 1990).

development, with Myanmar turning inward-looking in order to pursue its "Burmese Way to Socialism" while the ASEAN economies continued to develop under the export-oriented development strategies.[5]

As a result, the ASEAN economies have experienced tremendous development during the past two decades while Myanmar's economy has remained mostly stagnant. In the early 1950s. Myanmar was more developed than the Republic of Korea and Thailand (countries roughly the same size as Myanmar). Today, the per capita income of Myanmar, at about US$ 220, is only 4 per cent of that of the Republic of Korea, about 14 per cent of Thailand's, and less than half of that of Indonesia, the least developed of ASEAN economies.[6] In fact, ASEAN's industrialization progress over the years has left the Lao People's Democratic Republic and Myanmar far behind.

Table I.1 attempts to put the overall economic performance of the Lao People's Democratic Republic and Myanmar in the perspective of the dynamic region. Table I.2 shows their respective social dimensions of development. Broadly speaking, the level of social development of any economy in the Asian and Pacific region is well correlated with its overall economic performance. It thus follows that the Lao People's Democratic Republic and Myanmar, in lagging behind other economies in growth, have also achieved lower levels of social development in terms of education, health care and the provision of basic needs. Hence there is a large gap in the level of attainment of economic and social indicators between the Lao People's Democratic Republic and Myanmar on the one hand and the high performing economies on the other, particularly with respect to the NIEs. We begin by considering the underlying reasons for the economic success of the Asian NIEs.

B. Reasons for the dynamic growth of the NIEs

As can be seen from table I.1, the four NIEs have consistently chalked up high growth for over three decades. It is not difficult to explain their success within the conventional neo-classical economic framework.

(i) Export orientation

To begin with, all these economies have successfully operated the common export-oriented development strategy, as reflected in their generally high export to GDP ratios. Not just Hong Kong and Singapore on

---

5 For further discussion of the different development experiences between Myanmar and ASEAN, see John Wong, "Dependency and economic development: a Southeast Asian perspective", in Kyong-Dong Kim, ed., *Dependency Issues in Korean Development: Comparative Perspective* (Seoul, Seoul National University Press, 1987).

6 The World Bank has ceased to provide economic and social statistics on Myanmar. According to Myanmar's Ministry of National Planning and Economic Development, Myanmar's per capita GDP in 1991/92 at 1985/86 constance prices was Kyats 1,197. (Government of the Union of Myanmar, *Economic and Social Indicators*, Ministry of National Planning and Economic Development, August 1993).

Table I.1. Lao People's Democratic Republic and Myanmar and other Asia-Pacific economies

(Performance indicators)

	Area (thousand of sq km)	Population 1991 (million)	Nominal GNP Per capital 1991 (US$)	Real GDP growth (percentage)						Exports, 1992		Exports as percentage of GDP 1992	Inflation in 1992, percentage (CPI)	Debt-service ratio, 1992
				1960-1970	1970-1980	1980-1990	1991	1992	1993	US$ million	Percentage change			
Lao People's Democratic Republic	237	4.3	220	–	–	–	4.3	7.3	4.0	83	23.3	8.9	9.8	12.0 (1991)
Myanmar	678	42.6	220	2.7	4.6	-0.1	1.3	1.2	5.8	953	10.0	5.0	30.0	30
China	9 561	1 149.5	370	5.2	5.8	9.5	7.0	12.8	13.0	68 600	26.0	10.5	6.4	11.0
NIEs														
Republic of Korea	99	43.3	6 330	8.6	9.5	9.7	8.3	4.8	5.4	77 400	12.0	26.2	6.2	10.9
Taiwan Province of China	36	20.6	8 815	9.2	9.7	7.1	7.2	6.6	6.0	71 300	4.2	35.9	4.5	–
Hong Kong	1	5.8	13 430	10.0	9.3	7.1	4.0	5.0	5.3	111 978	17.5	122.0	9.4	–
Singapore	1	2.8	14 210	8.8	8.5	6.4	6.9	5.8	8.8	57 867	8.7	141.4	2.2	–
ASEAN														
Brunei Darussalam	6	0.3	21 000	NA	NA	NA	3.5	3.0	–	NA	NA	NA	NA	–
Indonesia	1 905	181.3	610	3.9	7.6	5.5	5.3	5.8	7.1	32 244	13.5	26.8	5.0	26.7
Malaysia	330	18.2	2 520	6.5	7.8	5.2	8.3	8.0	8.7	37 623	15.0	72.4	4.7	8.0
Philippines	300	62.9	730	5.1	6.3	0.9	1.0	0.0	0.9	10 213	14.0	19.8	8.9	18.9
Thailand	513	57.2	1 570	8.4	7.2	7.6	7.9	7.4	7.5	30 906	14.6	28.6	4.1	10.7

Sources: World Bank, *World Development Report*, various issues; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1992*; and national sources.

Table I.2. Lao People's Democratic Republic and Myanmar and other Asia-Pacific economies: social indicators

	GNP per capita, 1991 US$	Total fertility rate, 1991 (percentage)	Life expectancy at birth (years) 1991	Infant mortality rate, 1991 (per 1000 births)	Population per doctor, 1989	Adult literacy (percentage) 1990	Percentage of age group enrolled in schools: 1990			Human Development Index[a]
							Primary	Secondary	Tertiary	
Lao People's Democratic Republic	220	6.7	50	100	1 362	44	104	26	1	0.240
Myanmar	220	4.2	61	99	3 743	81	99	28	3	0.385
China	370	2.4	69	38	1 004	27	135	48	2	0.612
NIEs										
Republic of Korea	6 340	1.8	70	16	1 066	5	108	87	39	0.871
Taiwan Province of China	9 070	1.6	74	6	913	8	100	95	34	–
Hong Kong	13 430	1.4	78	7	1 075	10	106	73	–	0.913
Singapore	14 210	1.8	74	6	837	10	110	69	8	0.848
ASEAN										
Brunei Darussalam	21 000	–	–	–	–	–	–	–	–	–
Indonesia	610	3.0	60	74	9 464	23	117	45	–	0.491
Malaysia	2 520	3.7	71	15	2 594	22	93	56	7	0.789
Philippines	730	3.6	65	41	6 700	10	111	73	27	0.600
Thailand	1 570	2.3	69	27	6 294	7	85	32	–	0.685
Average of low-income countries	350	3.8	62	71	–	40	105	41	–	–
Average of middle-income countries	2 220	3.2	68	38	–	22	103	126	16	–

Sources: *World Bank, World Development Report 1993; Asiaweek* (13 January 1993); UNDP, *Human Development Report 1992;* and *Taiwan Statistical Data Bank*, 1993; and national sources.

[a] Human Development Index combines life expectancy, educational attainment and income indicators to give a composition measure of human development.

account of their traditional entrepot trade role in the region, but Republic of Korea and Taiwan Province of China and even China have also registered a high export-GDP ratio: 141 per cent for Singapore in 1992, 122 per cent for Hong Kong, 36 per cent for Taiwan Province of China, 26 per cent for Republic of Korea; compared with 9 per cent for the Lao People's Democratic Republic and 5 per cent for Myanmar.

The export-oriented strategies have thus enabled these economies to reap the gains from trade and specialization. As a result, they have captured a large share of the world market for their manufactured exports: in 1991, 8.9 per cent for Japan, 2.8 per cent for Hong Kong, 2.1 per cent for Taiwan Province of China, 2.0 per cent for China, 2.0 per cent for Republic of Korea, 1.7 per cent for Singapore. It is seldom realized that the implementation of effective export-oriented strategies is immensely difficult. In order to push their exports into the world market, these economies had to undergo a drastic structural transformation so as to develop a strong, internationally competitive manufacturing sector. This explains why many least developed countries have experienced great difficulty in making the transition from import substitution to export expansion.

(ii) Capital investment

It hardly needs emphasizing that export-oriented strategies, to succeed, must be supported by the availability of "right" economic inputs as well as a conducive economic and social environment for these economic inputs to operate. As pointed out by Ronald Findlay, export orientation *per se* is not "necessarily growth-inducing". The "missing link" is found in such real determinants of growth as capital formation and technological progress so vital for the dynamic internal economic transformation of these economies.[7]

The NIEs are certainly not lacking in those real factors of economic growth. As shown in table I.3, the NIEs and China have generally committed a high proportion of their gross domestic product (GDP) to domestic investment during their critical periods of industrial take-off and expansion. High investment is the fundamental factor for high economic growth, and it has worked in these economies much like a "virtuous circle of growth": high rates of investment induce high export growth, and then high GDP growth, high savings, and finally high investment again.

(iii) Human resources

To create wealth, capital must be combined with labour in appropriate quantity and quality. The NIEs started off their industrialization drive at the time of their fast population growth and high unemployment, and they therefore had plenty of cheap labour to supply their labour-intensive industries. But a similar situation has long prevailed in many least developed countries which have failed to take off.

---

7 Ronald Findlay, "Trade and development: theory and Asian experience", in Asian Development Bank, *Asian Development Review* (vol.3, No.1, 1985).

Table I.3. Distribution of GDP by sectors: newly industrializing economies, Lao People's Democratic Republic and Myanmar

(Percentage)

	Agriculture			Industry			Manufacturing			Services		
	1975	1985	1990	1975	1985	1990	1975	1985	1990	1975	1985	1990
Republic of Korea	24.1	12.8	7.8	32.5	41.9	46.4	22.5	32.3	33.6	43.5	45.3	45.8
Taiwan Province of China	11.3	6.2	4.3	39.2	46.5	43.6	29.1	38.2	35.3	49.5	47.2	52.1
Hong Kong	-	1	1	-	31.0	26.0	-	24.0	18.0	-	68.0	73.0
Singapore	1.5	0.8	0.3	37.2	36.6	36.6	26.0	23.6	29.0	61.3	62.6	63.1
Lao People's Democratic Republic	-	62.9	61.1	-	11.9	14.2	-	7.5	9.7	-	25.2	24.7
Myanmar	36.5	48.2	48.5	14.0	13.1	13.1	10.4	9.9	9.0	49.5	38.7	38.4

Sources: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 1992;* and *World Bank, World Development Reports,* relevant years.

Clearly, what is crucial in the process of sustained economic growth is not the sheer amount of capital or labour, but the condition of technological progress resulting from the acquisition of knowledge.[8] For many least developed countries, their critical bottleneck is obviously not their quantity but their quality of labour, which is characterized by T. W. Schultz as "human capital".

For the purpose of economic development, human capital formation refers to the time and efforts spent by an individual to acquire the needed industrial skills and knowledge, hence "investment in himself". The accumulation of human capital should therefore form a separate factor of production, much like the accumulation of physical capital. Both are instrumental in bringing about the needed technological progress or productivity growth.[9]

---

[8] In recounting Singapore's past development experience, Dr Goh Keng Swee (Singapore's former Deputy Prime Minister who is commonly regarded as the architect of Singapore's economic success) has also stressed the paramount importance of the acquisition industrial skills and knowledge in the industrialization of not just Singapore but also of the other NIEs. "Knowledge clearly did play a critical role in the ascent of the four dragons' economies", and "In competitive exporting, success often depends on having and using the right kind of knowledge", "Talking point – ascent of the dragons", *Asian Business* (No. 41, July 1992).

[9] Singaporean economists are all now too familiar with Alwyn Young's controversial work, "A tale of two cities: factor accumulation and technological change in Hong Kong and Singapore", which was reviewed by the London-based *Economist* (22 August 1991). Singapore's gross domestic investment over the past two decades was much higher than that of Hong Kong (Table I.2) ; but Singapore has registered no increases in total factor productivity. Capital investment alone (which includes also house construction) is not sufficient to bring about productivity growth.

(iv) Knowledge and technological progress

Technological progress is a nebulous concept, especially to the policy makers. Treated as a residue in the production function, technological progress is in any case difficult to measure. How did the NIEs acquire the essential knowledge for their technological progress? The best proxy is their growing number of engineering graduates.

In the Republic of Korea, between 1970 and 1991, enrolment of engineering and science students registered a tenfold increase from 36,671 to 371,319.[10] In Taiwan Province of China, the number of engineering students at universities increased by 14 times from 9,889 in 1965 to 139,508 in 1991.[11]

Long dependent on the influx of technical personnel from China, Hong Kong in 1960 had only one university with a total of 46 engineering students. By 1990, Hong Kong's total engineering enrolment at its two universities jumped to 1,938 in addition to 2,741 from polytechnics.[12] For Singapore, before 1969 there was no engineering faculty. In 1991, there were 1,216 engineering graduates from universities, in addition to 5,469 from polytechnics.[13] Since these economies are not facing the problem of graduate unemployment, their engineers by and large have been productively utilized for the technical transformation of these economies.

No less important than engineers but more elusive to capture is the specific role played by entrepreneurs in the industrial development of NIEs. Entrepreneurship in its true Schumpeterian sense must have a special place in the export-oriented pattern of development. What kind of socio-cultural traits have gone into the making of a successful entrepreneur? Apparently, NIEs are uniquely endowed with institutional preconditions to foster the growth of good entrepreneurship: their open social structure with easy upward social mobility, their pragmatic value system with no inhibition against the worldly pursuit of money and wealth, and the absence of legal restrictions on profits and capital gains are a case in point.

Suffice to say that the export drives in Hong Kong and Taiwan Province of China and to some extent in the Republic of Korea are typically mounted by numerous small to medium firms. Their success in gaining a strong hold in the world markets is a clear manifestation of the availability of superb entrepreneurship in East Asia.

---

10 Goh Keng Swee, op. cit.

11 Council for Economic Planning and Development, *Statistical Data Book* (Taipei, Taiwan Province of China, 1991 and earlier issues).

12 Census and Statistics Department, Hong Kong, *Annual Digest of Statistics: 1991 Edition*.

13 Department of Statistics, Singapore, *Yearbook of Statistics Singapore 1991*.

(v) Institutional conditions

How much of the industrialization success of East Asia is linked to its institutional structures? East Asian economies have highly divergent political systems. Hong Kong was and still is a British colony with British institutions. The Republic of Korea and Taiwan Province of China launched their industrialization programmes under martial law. Singapore was a one-man-one-vote parliamentary system, but with one party domination. None was truly democratic in the Western sense.

It should, however, be stressed that historically, successful economic development has taken place under virtually all sorts of political regimes. What is important is effective government, competent public administration and a dedicated political leadership committed to economic growth. Clearly, NIEs have been conspicuously successful in mobilizing a national consensus and in galvanizing social differences for the single-minded pursuit of economic development. In this way, they have developed a "market-friendly" economic environment in order to foster competition.

(vi) Socio-cultural variables

Can those real determinants of economic growth as discussed above operate without any regard to people's attitudes, belief systems, social relations patterns and power structures? Why have the NIEs been so successful in carrying out the export-oriented strategies? Why have these economies shown such a strong preference for education and training, and their people so easily taken to skill upgrading? Why does entrepreneurship thrive in these societies? Clearly, economic forces cannot operate in a social vacuum. Neo-classical economists are not capable of providing a satisfactory answer to all these questions.

To the extent that these societies all share the mainstream cultural traditions of ancient China as embodied in Confucianism, Confucian values and similar cultural traits have been conveniently, albeit controversially, singled out as a possible explanation for the above issues. Thus, the aspect of Confucian ethics as manifested in its emphasis on thrift and hard work, social harmony and community spirit, and respect for education, is considered to have been the fundamental social forces behind the industrial success of the NIEs, much like the Protestant ethic in the rise of Western capitalism.[14]

The trouble is that such arguments are running dangerously close to cultural determinism by implying that certain cultures or certain societies

---

[14] See, John Wong and Aline Wong, "Confucian values as a social framework for Singapore's economic development", in Chung- Hua Institution for Economic Research, *Conference on Confucianism and Economic Development in East Asia* (Taipei, Taiwan Province of China, May 1989). Also, Peter L. Berger and Hsin-Huang Michael Hsiao, *In Search of An East Asian Development Model* (New Brunswick, New Jersey, Transactions Books, 1988); Michio Morishima, *Why Has Japan Succeeded? Western Technology and Japanese Ethos* (London, Cambridge University Press, 1982); and Harry T. Oshima, *Economic Growth in Monsoon Asia: A Comparative Survey* (Tokyo, Tokyo University Press, 1987).

are uniquely capable of economic development while some are not. Furthermore, there is a serious methodological problem in any attempt to pinpoint Confucianism or similar cultural explanations as a fundamental cause of economic success in NIEs. Such explanations are mostly tautological in the sense that they merely repeat the same observed facts in a different way, with little or no explanatory power.[15] People in NIEs, with poor natural resource endowments, generally have a greater capacity for hard work, discipline, skills and enterprise simply because they have to make the most of their human resources.

Although there is no conclusive evidence to establish a direct link between Confucian values and the economic development of NIEs, the debate at least can serve to disprove that Confucianism itself can be anti-development. In a real sense, the upshot merely points to the fact that NIEs have identified and activated certain growth-supporting social values (for example, the traditional family system) to spark off their dynamic growth processes. And those traditional values have been conveniently labelled "Confucian values".

Historically, any society is just as capable of successful economic development. But in the early nineteenth century, many Westerners used to believe that only Christian values were uniquely capable of bringing about the Industrial Revolution. Hence the so-called "White man's burden", to spread Western beliefs and values to Asia and Africa.

The success of NIEs has demolished this form of Western cultural determinism by proving that Confucianism is also conducive to economic development. Now with Indonesia, Malaysia and Thailand, rapidly moving to join the ranks of the NIEs, their success will prove that Islamic and Buddhist values too are capable of industrial development. Hence the peril of linking any culture or any religion to successful economic development.

(vii) Generalizing successful experiences

There is actually no single-factor explanation of any success story. As an *expost* rationalization, we have attributed its success basically to a multitude of "right" economic factors operating under the "right" development strategies and interacting with the "right" institutional environment.

Economic development is essentially a collection of historical experiences. From the bundle of experiences that we have synthesized above, it is difficult to generalize which aspects of their experiences are relevant for other developing countries. What one can say is that successful economic development is neither culture-specific nor geographic-specific. In fact, the success story of NIEs is being repeated in other parts of Asia. The ASEAN economies have clearly joined the race and mounted similar

---

15 Lawrence J. Lau, "A comparative analysis of economic development experience in Chinese societies", paper presented at the International Symposium on "Economic Development in Chinese Societies: Models and Experiences", organized by the Hong Kong Economic Association, 18-20 December 1986.

export drives. The South Asian economies are also clearing the decks for their much awaited industrial take-off.

This should provide hope and aspirations for the many latecomers like the Lao People's Democratic Republic and Myanmar. The message to them is clear: they too can succeed once they have developed certain essential economic and institutional preconditions such as the rapid accumulation of physical and human capital. There is, after all, "nothing 'miraculous' about the East Asian economies' success".[16]

C. Why are the Lao People's Democratic Republic and Myanmar lagging behind?

Why have the Lao People's Democratic Republic and Myanmar not developed the preconditions for their economic take-off? The question can best be addressed by examining why the NIEs have done certain things and yet the same things were not done in the Lao People's Democratic Republic and Myanmar. This approach will not just bring out their critical institutional and structural differences but also broaden our understanding of the basic development problems and issues in the Lao People's Democratic Republic and Myanmar.

During the 1960s and the 1970s, as shown in table I.1, the NIEs have experienced near double-digit rates of growth. After the mid-1980s, the economic growth of the NIEs has come down a bit, with the Singapore economy even plunging into a negative growth in 1986, as the NIEs had to undergo economic restructuring from labour intensive manufacturing to more capital-intensive and higher value-added activities.[17] In recent years, as the NIEs become more "mature" and face the increasing constraint of labour shortages and higher costs, it has become increasingly difficult for them to attain high growth again for a sustained period.

However, even during their lacklustre performance periods, the NIEs still out performed the Lao People's Democratic Republic and Myanmar. For instance, Myanmar had an average growth rate of 2.7 per cent in the 1960s, 4.6 per cent in the 1970s, and negative growth or stagnation through the 1980s and the early 1990s. Table I.3 compares the economic structure of the NIEs, and the Lao People's Democratic Republic and Myanmar. For the Republic of Korea and Taiwan Province of China, the share of agriculture in their GDP has continued to decline during the

---

16 World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (A World Bank Policy Research Report, "Forward" to the Summary, 1993).

17 The economic restructuring or industrial upgrading measures in the 1980s were variously called the "Second Industrial Revolution" in Singapore, "Industrial Diversification" in Hong Kong, "Industrial Upgrading" in Taiwan Province of China, and "Industrial Sophistication" in Republic of Korea. For more detailed discussion of this topic, see John Wong, "The Asian NICs towards year 2000: growth and adjustment", in Fu-Chen Lo, ed., *Asian and Pacific Economy Towards the Year 2000* (Kuala Lumpur, The Asian and Pacific Development Centre, 1987).

period 1975 to 1990, along with the corresponding rise in their share for manufacturing. For Singapore, the manufacturing sector has expanded at the expense of traditional service activities by small traders and shop-keepers. The structural change of the Hong Kong economy has gone even further, as it is the first NIE to have started a significant degree of "de-industrialization", with most of its manufacturing bases having shifted to its neighbouring Guangdong province.

By comparison, the present economic structures of the Lao People's Democratic Republic and Myanmar are clearly pre-industrial, as reflected in their large agricultural sector and the relatively small manufacturing sector. In 1990 agriculture accounted for 61 and 49 per cent of the GDP of the Lao People's Democratic Republic and of Myanmar respectively while manufacturing was responsible for only 9.7 and 9 per cent in the two countries. This is a telling evidence of their lack of industrial progress during the past two decades when NIEs were all taking off one after another. For Myanmar, its manufacturing sector has remained stagnant since the mid-1970s.

Why are these two countries so badly lagging behind in economic development? This is not the place to undertake a formal and detailed analysis of the causes of economic backwardness of these two countries. The discussion of their constraints and problems is grouped under two headings: "exogenous" and "neo-classical" explanations.

(i) Exogenous explanations

The NIEs have developed the kind of political system and social structure which were conducive to their single-minded pursuit of economic growth based on export expansion.

(a) The politics of development

Hong Kong is an economy functioning closely to the textbook example of *laissez faire* system, with all the economic freedom for industry and commerce. Hong Kong was also the nearest approximation to a "capitalist paradise", where the British expatriates ran the public administration system and provided the Western type of legal framework while the Chinese entrepreneurs carried out the main commercial and industrial activities.[18]

The other three NIEs started off with import substitution under tariff protection. However, they soon got out of it with progressive domestic liberalization. For example, Singapore removed most tariff protection by the early 1970s. Consequently, the level of domestic price distortion in these three NIEs was relatively low, and was progressively reduced as they built up their export industries. In contrast, the Lao and Myanmar economies

---

18 For further discussion of Hong Kong's economic success in the context of its *laissez faire* policy, see Jon Woronoff, *Hong Kong: Capitalist Paradise* (Hong Kong, Heinemann Asia, 1980), and Alvin Rubshka, *Hong Kong: A Study in Economic Freedom* (Chicago, Chicago University Press, 1979).

today still maintain an excessively protective regime, and their domestic price distortions remain high, much to the detriment of their domestic resource mobilization.

In the area of politics and governance, the NIEs instead of following the pluralistic but highly contentious Western form of democracy, operated a paternalistic style of government with strong emphasis on consensus and high preference for political and social stability. Such political pragmatism has turned out to be favourable for their strong economic growth. Further, except for Hong Kong, the political elites of the other three NIEs were closely involved in their industrialization drive, with their political leadership constantly under strong pressure to perform and to "deliver the goods" in terms of higher GNP increases or more export growth. In the Republic of Korea, real power was in the hands of the military, who were, however, "pragmatic and managerial, rather than ideological".[19] In Taiwan Province of China and Singapore, the political leadership co-opted technocrats to administer economic affairs.

In contrast, the Governments of the Lao People's Democratic Republic and Myanmar have been too ideological.

(b) Non-economic factors

Socially and culturally, the NIEs (except Singapore) are remarkably homogeneous, and even for Singapore the degree of social heterogeneity is not so serious as the ethnic Chinese constitute more than 75 per cent of the total population. This has made it possible for the NIEs to mobilize national consensus and social harmony, especially during their critical phase of industrial take-off, for maximum efforts in economic development. The case in point is the trade union movement in Singapore supporting the Employment Act of 1968, which prohibits illegal strikes.

In sharp contrast, the Lao People's Democratic Republic and Myanmar probably constitute the region's most heterogeneous societies. The Lao People's Democratic Republic, with a population of a little over 4 million, has over 65 ethnic minorities, with the ethnic Lao as the dominant group constituting only about half the population. Myanmar, with a population of 43 million, is equally diverse as a country. Myanmar also has many ethnic groups, though the dominant Burmese constitute over 60 per cent of the total population. This means that for the Lao People's Democratic Republic and Myanmar a lot of productive resources and institutional energies are devoured by national integration efforts.

The international political and economic environment had also worked to the benefit of the NIEs, which were able to develop in the absence of war and turmoil. The NIEs happened to be on the right side of the Cold War. Hong Kong and Singapore developed under the US security umbrella with little or no diversion of resources to military spending. The

---

[19] David Cole and Princeton N. Lyman, *Korean Development: The Interplay of Politics and Economics* (Cambridge, Massachusetts, Harvard University Press, 1971), p.37.

Republic of Korea and Taiwan Province of China were actually recipients of generous American economic aid, which was used to fill their resource gaps in their early phase of industrialization.

The timing for the NIEs' industrial take-off was favourable. The NIEs mounted their export drives in the late 1960s and early 1970s, when the international economic environment was conducive to the export-led type of economic growth in terms of free flow of capital and technology, and easy access to markets of the developed countries.

However, the Lao People's Democratic Republic and Myanmar had none of these external advantages. The Lao People's Democratic Republic was under civil war conditions for three decades until December 1975. Subsequently, the Lao People's Democratic Republic continued to suffer from the spillover of the Indochina conflict. It was only in recent years that the political dust in the Lao People's Democratic Republic has settled and peaceful conditions for development have returned.

Although Myanmar was not a direct victim of the Cold War, it still suffered from a long period of political volatility and uncertainty. Accordingly, Myanmar, too, did not have the conditions of peace and stability to prepare itself for the industrial take-off. Subsequently, Myanmar pursued its self-imposed economic isolation with minimal participation in the international economic system. In so doing, Myanmar also did not benefit much from the international economy.

(c) Choice of strategies

"Right" strategies or "right" policies are even more crucial for the failure or success in development. As already pointed out earlier, the NIEs share an important common feature of having an open and outward-looking economic structure, as manifested in their high export-GDP ratios. With the exception of the Republic of Korea, the other three NIEs are basically small in terms of their population size and domestic markets. Their adoption of an export-oriented industrial policy is therefore unavoidable. For the two city-state economies of Hong Kong and Singapore, it is imperative for them to operate an open economic structure, even to the extent of becoming an offshore centre of international capitalism, just for their survival. For the Republic of Korea and Taiwan Province of China, the export-oriented development strategies have made it possible for them to reap the dynamic gains from the international division of labour.

The gains from export orientation were not confined to the direct contribution to GDP growth, but were extended throughout the "non-tradable" sectors. In short, export orientation had enabled the NIEs to raise their "total factor productivity through its favourable effects on the efficiency of resource allocation, capacity utilization, economies of scale, and technological progress".[20]

---

[20] Bela Balassa, *Export, Policy Choices, and Economic Growth in Developing Countries after the 1973 Oil Shock* (World Bank, Washington, D.C., 1983).

Not surprisingly, the NIEs had all experienced an export boom in the 1960s and the 1970s. The Republic of Korea's exports in the decade of the 1970s increased by 21 times, Taiwan Province of China's by 13 times, Hong Kong's by 9 times, and Singapore's by 13 times.[21] In the 1970s, the resource rich ASEAN economies were also on the crest of the world's primary commodities boom.

However, the Lao People's Democratic Republic and Myanmar, with a similar range of primary commodities and natural resources as in the ASEAN economies, stood idly by. Dynamic comparative advantage apart, it is not advantageous for small primary-producing countries like the Lao People's Democratic Republic and Myanmar to sever trading linkages with the industrial countries which happened to be the major consumers of the world's primary commodities.

In the 1980s, the Lao People's Democratic Republic and Myanmar slowly returned to world trade. But their exports remained minuscule throughout the last decade. The Lao People's Democratic Republic started with US$ 8 million worth of exports in 1978, and its total exports in 1991 amounted to only US$113 million. For Myanmar with a population of 43 million, its total exports fluctuated around US$ 400 million, which was only 0.5 per cent of the total exports of Taiwan Province of China in 1991.

As stated by Paul Streeten, outward-looking development strategies "encourage not only free movement of capital, workers, enterprises and students, but also welcome multinational enterprise, and an open system of communications".[22] The direct and indirect costs to the Lao People's Democratic Republic and Myanmar for following the "closed door" policy are high indeed. Apart from their failure to reap the dynamic gains from international trade, their inward-looking policies have, in retrospect, rendered both their Governments and people also inward-looking; hence the absence of the necessary institutional preconditions for the introduction of growth-promoting development strategies in these two countries.

(ii) Endogenous explanations

Economic growth is directly linked to the accumulation of both physical and human capital. Thus, an examination of such endogenous factors of economic growth as capital and labour in the NIEs on the one hand and those in the Lao People's Democratic Republic and Myanmar on the other, will provide even more compelling explanations as to why the NIEs have been so eminently successful in development while the latter countries are lagging behind.

---

21 Computed from data contained in UNCTAD, *Handbook of International Trade and Development Statistics*, relevant years.

22 Paul Streeten, "Trade strategies for development: some themes for the seventies", *World Development* (vol.1, No. 6, 1975).

(a) Savings and investment

As can be seen from table I.4, the NIEs started off on the eve of their industrialization in 1960 as capital scarce economies, and hence their low domestic savings, particularly for the Republic of Korea and Singapore. After their economic take-off, the NIEs committed a high proportion of their GDP, on average of 32 per cent for the 1970s and the 1980s, as gross domestic investment. Their high rates of gross domestic investment were generally matched by their equally high rates of gross domestic savings, which were at the average of 28 per cent in the 1970s and 35 per cent in the 1980s.

On the other hand, the Lao People's Democratic Republic and Myanmar in the 1980s committed only about 15 per cent of their GDP, or just half of the proportion of the NIEs, to gross domestic investment. The Lao People's Democratic Republic and Myanmar have in fact invested much less than many low-income countries including China and India. For the Lao People's Democratic Republic and Myanmar, their levels of domestic savings were also very low: about 12 per cent for Myanmar in the 1980s and near zero savings for the Lao People's Democratic Republic.

Many explanations have been offered as to why NIEs generally had such high rates of savings. These include the controversial cultural (for example, the traditional habit of thrift) and social (the family to provide the social security) explanations, which are obviously inadequate. Direct economic explanations are associated with the macroeconomic environment in the NIEs that was conducive to savings, including positive real interest rates, low inflation, stable financial structure and high public savings.[23] But the Governments of the NIEs also took measures to encourage savings. In the case of Singapore, which currently has the world's highest savings rates, a mandatory pension scheme called the Central Providence Fund has been used to effect forced savings.

The low rates of savings in the Lao People's Democratic Republic and Myanmar were of course the outcome of their low levels of income, in the case of the Lao People's Democratic Republic, its near zero rates of savings point also to its near subsistence level of income. But in both the Lao People's Democratic Republic and Myanmar, the macroeconomic conditions in the later part of 1980s with double-digit rates of inflation and negative real interest rates, were certainly not conducive to domestic savings. The Governments of both countries did not introduce positive measures to encourage greater savings. Moreover, these two countries, despite their penchant for economic planning, had no effective measures to control domestic consumption and raise domestic savings, as in the case of China before the economic reforms. China under Mao, for all the economic inefficiencies, still had reasonable economic growth because the Government strictly regulated domestic consumption in order to achieve higher savings and higher investment. This was apparently not the case with the Lao People's Democratic Republic and Myanmar, which had committed to the socialist "self-reliant" policy without having developed its domestic capital formation capability.

---

23 For more detailed discussion of this subject, see *The East Asian Miracle*, op. cit, chapter 5.

Table I.4. Savings and investment of the newly industrializing economies, Lao People's Democratic Republic and Myanmar

(Percentage of GDP)

	Gross domestic savings (percentage)							
	1960	Average 1971-1980	Average 1981-1990	1988	1989	1990	1991	1992
Republic of Korea	1	22.3	31.9	38.3	35.6	36.2	36.4	34.9
Taiwan Province of China	13	32.1	32.9	34.4	30.7	27.9	27.8	26.7
Hong Kong	6	28.4	31.0	35.0	35.7	33.3	30.9	31.4
Singapore	-3	30.0	42.6	42.5	44.1	45.1	45.8	47.2
Lao People's Democratic Republic	–	–	–	2.2	1.1	0.8	2.1	3.6
Myanmar	–	12.3	12.0	11.1	8.8	12.0	13.9	12.5
For comparison								
China	–	35.8	34.4	37.6	37.1	40.1	38.9	40.3
India	14	20.1	20.7	21.9	24.6	23.6	24.3	24.3

	Gross domestic investment (percentage)							
	1960	Average 1971-1980	Average 1981-1990	1988	1989	1990	1991	1992
Republic of Korea	11	28.6	30.5	30.6	33.4	36.9	39.1	36.2
Taiwan Province of China	20	30.5	22.6	23.3	22.8	22.4	22.8	24.4
Hong Kong	18	27.8	28.2	29.9	27.7	28.4	28.1	28.4
Singapore	11	41.2	42.2	36.9	35.0	39.7	38.2	40.8
Lao People's Democratic Republic	–	–	–	14.9	15.1	14.8	13.1	14.5
Myanmar	–	13.9	15.3	12.8	9.2	13.5	15.1	13.3
For comparison								
China	–	33.9	35.1	39.6	38.6	36.6	35.7	39.4
India	17	20.5	22.8	25.0	27.6	26.3	25.5	26.7

Sources: Asian Development Bank, *Asian Development Outlook 1993;* and *World Bank, World Development Report 1980.*

It may be noted that not all domestic investment in the NIEs had been met by domestic savings, especially in their early phase of industrial expansion. Where domestic resources fell short, the "resource gap" was filled by the inflow of foreign capital in the form of foreign economic aid, foreign borrowing or foreign direct investment. The outward-looking NIEs, by allowing their economies to be integrated with the international capitalist economic system, had little difficulty in attracting the required inflow of foreign financial resources in their industrialization process. Initially the Republic of Korea and Taiwan Province of China depended heavily on

American aid. Subsequently, the Republic of Korea turned to direct external borrowing to supplement its overseas development assistance (ODA) sources. Singapore has all along resorted to foreign direct investment, making it the most dependent among the NIEs on foreign multinationals.[24]

In sharp contrast, the Lao People's Democratic Republic and Myanmar in committing themselves to the closed-door economic policy had shut themselves off from international capital. Being on the wrong side of the Cold War, they did not have sufficient access to ODA emanating from industrial countries. Their mistrust of foreign multinationals and anti-foreign investment climate had further deprived them of the availability of private foreign capital inflow. It was not until the late 1980s, with the return of stability, that foreign financial resources dribbled in. As shown in table I.5, the annual inflow of ODA to the Lao People's Democratic Republic and Myanmar was totally inadequate to meet the development needs of these two countries. In recent years, Myanmar had tried to supplement its ODA sources with commercial borrowing, which led to a sharp rise in its external debt burden.

(b) Human resources

The NIEs, with a high degree of population density, started their industrialization with high unemployment rates, or high rural underemployment in the case of the Republic of Korea and Taiwan Province of China. Labour supply therefore did not pose any problem in their initial periods of industrialization. In fact, their rapid industrial growth during the 1960s and the 1970s was accompanied by high rates of labour force growth, which provided a huge pool of cheap labour to fuel their labour-intensive industries. Subsequently, successful industrialization brought about a demographic transition towards low fertility and low mortality. The NIEs, since the 1980s, started to experience labour shortages, particularly for Hong Kong, Singapore and Taiwan Province of China.

As can be seen from table I.6, the demographic profile of the Lao People's Democratic Republic and Myanmar today is one of high population growth rates, young population structure and a high proportion of the labour force in agriculture, all similar to those of the Republic of Korea and Taiwan Province of China on the eve of their industrialization. In the 1950s, over 70 per cent of the labour force in the Republic of Korea and Taiwan Province of China were in agriculture, but the proportion has since declined respectively to 44 and 30 per cent in 1975 and further to 18 and 13 per cent in 1990 when they had become full-fledged industrial economies. By comparison, the Lao People's Democratic Republic and Myanmar, with 77 and 69 per cent of their labour force in agriculture respectively in 1975, still had about the same proportion, 72 and 66 per cent respectively, in 1990. In other words, the Lao People's Democratic Republic and Myanmar had not achieved much industrialization progress during these 15 years.

---

[24] For further discussion of this the other related topics, see John Wong, "The Asian NICs towards year 2000: growth and adjustment", op. cit.

Table I.5. External financial resources: Lao People's Democratic Republic and Myanmar

(Millions of US dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total net flows of financial resources from all sources to developing member countries of ADB[a]													
Lao People's Democratic Republic	72.2	54.5	39.9	35.0	38.1	30.1	35.2	64.1	48.4	58.3	77.3	139.9	151.7
Myanmar	358.1	518.1	402.7	327.9	418.0	297.5	278.1	310.8	372.5	351.8	472.5	86.6	115.0
Total official development assistance commitments from all sources to developing member countries of ADB[a]													
Lao People's Democratic Republic	73.7	65.5	82.5	50.6	19.4	53.9	40.8	25.4	61.0	141.9	110.5	208.3	134.3
Myanmar	269.9	552.0	300.4	452.6	610.0	360.7	434.8	343.0	476.3	510.5	138.5	37.0	66.8

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1992.*

[a] Asian Development Bank.

Table I.6. Quantitative aspects of human resources: newly industrializing economies, Lao People's Democratic Republic and Myanmar

	Mid-year population 1991	Annual growth rate between census years	Economically active population (percentage)			Percentage of labour force in agriculture		Age distribution (percentage)				Urban population (percentage)	
								0-14		15-64			
			1975	1985	1990	1975	1990	1975	1989	1975	1989	1975	1989
Republic of Korea	43.3	1.4 (1980-1985)	34.6	38.2	43.1	43.8	17.8	38.1	26.4	58.4	68.7	48.4	71.0
Taiwan Province of China	20.4	1.9 (1976-1980)	35.4	40.0	41.7	29.7	12.6	35.3	27.1	61.2	66.7	65.4	78.8
Hong Kong	5.8	1.3 (1981-1986)	45.0	48.2	48.2	–	0.7	30.4	21.5	64.2	69.4	90.0	94.0
Singapore	2.8	1.5 (1970-1980)	38.6	51.9	55.9	1.9	0.4	32.8	23.1	63.1	71.3	100.0	100.0
Lao People's Democratic Republic	4.3	2.7 (1980-1991)	52.2	48.9	46.6	77.3	71.5	42.1	44.0	55.2	53.1	11.0	18.0
Myanmar	41.6	2.2 (1973-1983)	39.9	40.8	38.6	69.1	65.6	40.7	37.5	55.4	58.4	25.0	25.0

Sources: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1992;* and World Bank, *World Development Report 1993.*

In the Republic of Korea and Taiwan Province of China, industrialization and labour absorption had followed closely the typical process of development as depicted by the Lewis-Ranis-Fei model, with the surplus rural labour being steadily transferred to the urban sector for industrial development. Hence there was a steady decline in their agricultural labour force. But they could not have done this without having established a strong agrarian precondition. Back in the early 1950s, these two NIEs carried out successful land reform programmes, which in turn laid a sound institutional foundation for technological progress in agriculture. The result was a marked growth of agricultural productivity, which was further realized by transferring the agricultural surplus for industrial development. In a similar vein, the lack of industrial take-off in the Lao People's Democratic Republic and Myanmar may be attributed to their agricultural stagnation. The successful experience of the Republic of Korea and Taiwan Province of China in establishing a dynamic agricultural sector prior to their "industrial revolution" should be instructive for the Lao People's Democratic Republic and Myanmar.[25]

The critical difference between the NIEs and the Lao People's Democratic Republic and Myanmar with respect to their human resource endowment comes from the "qualitative aspects". As resource-poor economies, the NIEs from the outset strived to overcome this constraint by intensifying their human resource development with strong emphasis on education and training. Accordingly, human resources in the NIEs in terms of skills, work motivation, adaptability and trainability have played a crucial role in their industrial success. Ian Little has stressed the positive contribution to the development of the NIEs by their high quality labour force whose "members by nature or tradition... are thrifty, and want to learn".[26] It is a moot point if the dominant cultural traits of the NIEs shaped by Confucian values might have made a significant contribution to their remarkable human capital formation. Without doubt, their cultural and social homogeneity has facilitated their education and training efforts

It is clear from table I.7 that the NIEs, even before their embarking on industrialization, had better human resources than the Lao People's Democratic Republic and Myanmar, as the NIEs all along had a relatively higher level of education and adult literacy rates. Subsequently, the NIEs had continued to invest heavily in education and training, in all levels of education, as reflected in their rising shares of government expenditures on education and rising enrolment in tertiary institutions. Furthermore, their education is generally biased towards sciences and technology, particularly for the Republic of Korea, Taiwan Province of China, and Singapore. This is confirmed by a recent World Bank study which notes:

---

25 For a detailed discussion of Taiwan Province of China's agricultural development experience, see Gustav Ranis, *Taiwan: From Developing to Mature Economy* (Boulder, Colorado., Westview, 1992).

26 I.M.D. Little,"An economic reconnaissance", in Walter Galenson, ed., *Economic Growth and Structural Change in Taiwan Province of China* (Ithica, Cornell University Press, 1979), p. 461.

Table I.7. Qualitative aspects of human resources: newly industrializing economies, Lao People's Democratic Republic and Myanmar

	Adult literacy rates (percentage)				Gross primary school enrolment ratio (percentage)				Percentage of age group enrolled in education				Percentage of total government expenditure on education		Total enrolment in tertiary education			
									Secondary		Tertiary				1980		1991	
	1960	1975	1985	1990	1960	1975	1985	1989	1970	1990	1970	1990	1980	1991	No. of students	In science and technology	No. of students	In science and technology
Republic of Korea	70.6	91	-	97	94.0	109	96	104	42	87	16	39	17.1	15.8	535 873 (1981)	-	1 052 140	474 575
Taiwan Province of China	-	84	90	92	95.4	99	99	100	64	84	35	41	15.3[a]	20.7[a]	342 528	169 124	498 131	226 162
Hong Kong	70.4	90	88	88	87.0	120	105	106	36	-	11	-	12.9	16.4	28 892	-	57 237	-
Singapore	-	78	86	87	111.0	109	96	104	46	69	-	8	14.6	19.9	22 633	-	60 369	-
Lao People's Democratic Republic	-	-	44	44	-	57	91	110	3	26	1	1	-	7.7	-	-	490	-
Myanmar	-	67	81	81	-	85	102	99	-	28	-	3	-	7.9	-	-	219 975	-

Sources: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1992*; World Bank, *World Development Report 1993*; and *World Tables*, relevant years. For country sources: *Korea Statistical Yearbook*, relevant years; *Taiwan Statistical Data Book, 1992*; *Annual Digest of Statistics*, relevant years; and *Yearbook of Statistics Singapore*, relevant years. *Basic Statistics About the Socio-economic Development in the Lao PDR, 1992* (State Statistical centre; and *Economic and Social Indicators* (Government of the Union of Myanmar, Ministry of National Planning and Econimic Development, August 1993); and *Review of the Financial, Economic and Social Conditions for 1993/94* (Union of Myanmar, Ministry of National Development and Economic Development, 1993).

[a] Includes spending on culture.

"In most of the economies of East Asia, public investments in education were not only larger than elsewhere in absolute terms, they were also better".[27]

Table I.7 also brings out the low level of attainment of the Lao People's Democratic Republic in education. With less than half of its adult population literate in 1990, the Lao People's Democratic Republic's basic education level was much lower than that of the NIEs on the eve of their industrialization drive. In 1991 the Lao People's Democratic Republic allocated only 8 per cent of its government budget to education, compared to the average of 18 per cent for the NIEs. In 1990 only one in four of the age group in the Lao People's Democratic Republic attended secondary schools, and one in hundred went to university. The shortage of high level manpower in the Lao People's Democratic Republic is therefore much in evidence.

Myanmar's basic education performance is admittedly better than in the Lao People's Democratic Republic, and Myanmar has more high school leavers attending tertiary level of education; one third of its junior middle school leavers went on to high schools and two thirds of its high school leavers went on to post-secondary education. But Myanmar's achievements pale beside the NIEs. Though Myanmar in 1991 boasted a total enrolment of 219,975 in tertiary education, only about half of them were in proper universities and advanced institutes, with the rest taking the "university correspondence courses". Furthermore, Myanmar's higher education does not show such a strong bent for the hard sciences and technology as in the NIEs. For instance, in 1991 Myanmar had about the same number of students (5,100) in its Institute of Economics as in its Institute of Technology while its Institute of Computer Science and Technology had only 137 students.[28]

Suffice it to say that there existed a large human resources gap between the NIEs on the one hand, and the Lao People's Democratic Republic and Myanmar on the other. While strong growth of human capital in the NIEs has been the single most important factor for their industrialization success, the weak human capital foundation in the Lao People's Democratic Republic and Myanmar can explain their lack of industrial take-off.

D. The challenge of catching up

Discussion in the previous two sections has yielded two compelling conclusions: (a) a great deal of the NIE's development experience can be duplicated (in fact it is being repeated in ASEAN and China) by the Lao

---

27 *The East Asian Miracle*, op. cit., p. 203.

28 The Union of Myanmar, Ministry of National Planning and Economic Development, *Review of the Financial Economic and Social Conditions for 1993/94*, p. 192.

People's Democratic Republic and Myanmar; and (b) the Lao People's Democratic Republic and Myanmar too can be catapulted into dynamic growth once they have developed similar preconditions and adopted similar policies. Indeed, this paper takes an optimistic view that the external economic environment in the 1990s, particularly within the region, has become highly favourable for the Lao People's Democratic Republic and Myanmar to start their economic take-off.

(i) Spillovers of Asia-Pacific growth

The region has the concentration of the world's best performing economies, which in recent years have continued to chalk up strong growth, despite the global economic recession. Sustained economic growth in the region has given rise to high optimism about the continuing growth prospects of all the economies in the future, and hence the notion that the twenty-first century may well be the "Pacific Century". In fact, the region actually possesses all the essential ingredients needed for sustaining its continuing dynamic growth: capital, labour, technology, natural resources and markets.

Whether or not the "Pacific Century" will eventually become a reality is a different matter; what is important is the fact that the region is fast emerging as a viable hub of economic activities, attracting an increasing inflow of resources from other parts of the world. This in turn will reinforce the region's growth momentum.

More significantly, as a result of its sustained growth, the region has developed a significant degree of economic interdependence, not out of any formal or institutionalized economic cooperation arrangements, but mainly due to the working of market forces. Thus in 1991, the region absorbed 67 per cent of total exports of China, 43 per cent of the four NIEs, 57 per cent of ASEAN (excluding Singapore), and 32 per cent of Japan, the latter's share in the regional trade is still significant considering its global orientation.[29]

Apart from intraregional trade, intraregional investment flows have also operated as a strong integrating force for the open and outward-looking Asian and Pacific economies. Initially, Western capital dominated the region's foreign direct investment scene. Then came the Japanese capital as the second wave. Since the late 1980s, the region has witnessed a new trend associated with increasing investment flows from the NIEs, to ASEAN and to China. The NIEs, having been transformed from capital deficient to capital surplus economies, formed the third wave. Of even greater significance, the fourth wave is taking shape. ASEAN countries like

---

29 IMF, *Direction of Trade Statistics Yearbook 1992*. For Taiwan Province of China, national sources.

Thailand, Malaysia and even Indonesia, as a result of their domestic financial liberalization policies, have started to invest in other countries, even though these ASEAN countries are still net capital importers. There should be enough regional investors for the latecomers.

As a result of greater intraregional trade and greater intraregional investment, the region has opened up a new source of economic growth. In fact, economic growth and economic integration are feeding on each other, creating beneficial externalities for further growth for all the economies. More significantly, the externalities of economic growth in the region are likely to spill over to the peripheral countries like the Lao People's Democratic Republic and Myanmar.

Japanese economists used to depict the historical growth process of the region and its resultant development hierarchy as the "flying geese" pattern of regional development.[30] Japan was the first industrial state in Asia, which was followed first by Hong Kong and then the other three NIEs, and subsequently also by ASEAN and China. Such a development succession was dictated by the technological hierarchy of these economies as well as following the evolution of comparative advantage in the region. Thus Japan started off with labour-intensive industries but rising costs and increasing wages had forced Japan to pass its comparative advantage for labour-intensive industries to the NIEs, which eventually had to upgrade their industries and passed their comparative advantage for labour-intensive manufacturing activities to ASEAN and China with more low-cost labour. In this way, the economies are increasingly linked together through both vertical and horizontal integration.

What this means for the Lao People's Democratic Republic and Myanmar is that there is a real possibility for them to participate in the dynamic growth process of the region so long as they did not turn away from interacting directly with the other fast growing economies. As new arrivals to industrialization, the Lao People's Democratic Republic and Myanmar could well become the last cohort in the flying geese formation. In short, economic growth could well produce a beneficial "convoy effect" for the Lao People's Democratic Republic and Myanmar.

(ii) Subregional cooperation for growth

The development prospects of the Lao People's Democratic Republic and Myanmar could also be boosted by subregional integration arrangements. With the normalization of the situation in Cambodia, peace returned to Indochina. Thus, for the first time since the end of Second World War, the peninsular South-East Asia has experienced political stability, which is an essential precondition for business and investment. From now on,

---

30 The "flying geese" pattern of development was coined by a Japanese economist, Kaname Akamatsu, "A historical pattern of economic growth in developing countries", *The Developing Economies*, vol. 1, No. 1, March/August 1962.

Governments in these countries would be less preoccupied with the security problems and could pay more attention to economic development issues. Not surprisingly, the normalization of relations among these countries immediately resulted in a rise of border trade among these countries.

In the longer run, the Lao People's Democratic Republic and Myanmar, along with Cambodia and Viet Nam, are potential candidates of the ASEAN organization.[31] ASEAN membership could certainly provide a useful regional framework for these four "transitional economies" to maximize their subregional economic linkages.

In the short run, however, it is easier to envisage the rise of various forms of subregional cooperation arrangements like growth triangles. This commonly refers to a less institutionalized but more market-oriented form of cooperation, designed to exploit complementarities between geographically contigous territories of different countries.

In this regard, the Lao People's Democratic Republic would stand to gain from various development schemes along the Mekong River. The opening of the Friendship Bridge between Thailand and the Lao People's Democratic Republic over the Mekong highlights the enormous development potential of the Mekong valley to be exploited through cooperation among the different parties: Myanmar and China's Yunnan province to the north, Thailand on the southern bank, and the Lao People's Democratic Republic, Cambodia and Viet Nam on the eastern bank. Both the Lao People's Democratic Republic and Myanmar could be involved in various cooperative development schemes.

The Mekong valley can be divided into three possible economic zones. The first will be the Upper Mekong Navigation Zone, which could give rise to the so-called "Growth Quadrangle" involving China, Myanmar, Lao People's Democratic Republic and Thailand. China's Yunnan province in particular wants to use the Mekong valley as the corridor to the sea. The second development zone will be the Southern Lao Transport Corridor, which will provide land-locked Lao People's Democratic Republic with access, through Cambodia, to a seaport in Viet Nam, a kind of "Growth Triangle". The third development zone will be the Inland Navigation Strategy, which involves the Lao People's Democratic Republic and Cambodia. When all these development zones take off, it will lead to an economic rejuvenation of the Mekong area and eventually greater prosperity of the whole of peninsular South-East Asia.

Each of these cooperative schemes could serve as a focal point for regional investment and tourism, which in turn would generate more regional trade and greater integration among the participating subregions. The idea is to create *de facto* borderless economies in a designated

---

31 Since early 1993, there has been speculation about Myanmar's intention to join ASEAN, and the Myanmar government is certainly keen to cultivate bilateral relations with individual ASEAN states. Collectively ASEAN countries are committed to the policy of "constructive engagement" towards Myanmar. Tin Maung Maung Than, "Political outlook: Myanmar, 1994-95", in *Regional Outlook: Southeast Asia 1994-95* (Singapore, Institute of Southeast Asian Studies, 1994).

subregion before the national Governments are politically ready for a more formal and binding form of economic cooperation.[32] In short, such subregional cooperation arrangements would certainly speed up the open-door policy of both the Lao People's Democratic Republic and Myanmar.

Through increasing contacts with their more prosperous ASEAN neighbours, the Governments and people of the Lao People's Democratic Republic and Myanmar would quickly come to realize the advantages of outward orientation and increasing economic relations with neighbours. The people of Myanmar would recall how their country was originally more developed than Thailand in the 1950s, and the success of Thailand today would certainly exert a powerful demonstration effect on them. Even their greater contact with China and Viet Nam, which have more vigorously carried out their open-door policies by letting ideology take a back seat, would inevitably rub off on the Lao People's Democratic Republic and Myanmar.

In short, the existing external forces or rather the regional political and economic climate has become more favourable for the Lao People's Democratic Republic and Myanmar to return to the mainstream pattern of economic development. As pointed out earlier, the NIEs had their economic take-off in the 1960s when the international economic environment was most favourable. The international economic environment today, with increasing protectionism and politicization of trade, may seem to be getting more difficult for the export-oriented developing economies. However, a closer look at the external economic environment surrounding the Lao People's Democratic Republic and Myanmar shows that they too stand to gain from positive external factors of a different sort. Obviously, there is no such thing as favourable timing for economic development. What matters is the will to make a start and to regain lost time. Such is the kind of urge that had prompted the Chinese and Vietnamese leadership to boldly embark on their open-door policies.

(iii) External sector policies

The NIE's success was primarily due to the ways they responded to the domestic challenges and external opportunities. They were all driven to economic development under extremely difficult conditions or by the need to survive. The Republic of Korea built up its industry from the ashes of the devastating Korean War; Taiwan Province of China started industrialization after the Government was driven out from the mainland; Hong Kong was forced to industrialize after it was derived of its main livelihood, the entrepot trade with China, on account of the United Nations embargo; and Singapore had to do the same as its traditional entrepot trade sector became stagnant, unable to provide employment to a young population which was growing at some 4.5 per cent a year, with open unemployment at 13 per cent.

---

32 For discussion of some of the problems associated with the region's best known growth triangle, see Lee Tsao Yuan, ed., *Growth Triangle: The Johor-Singapore-Riau Experience* (Singapore, Institute of Southeast Asian Studies, 1991).

As both Hong Kong and Singapore are urban-based economies, the structure of the Korean and Taiwanese economies at their starting points bore greater similarity to that of the Lao People's Democratic Republic and Myanmar of today. In Taiwan Province of China, for instance, the primary sector in 1952 accounted for 38 per cent of net domestic product (NDP) at current prices while manufacturing was responsible for only 9 per cent.[33] Inflation was rampant, and the government incurred a huge deficit along with a huge trade deficit. So Taiwan Province of China began to adopt the then much fashionable import substitution policy to encourage its small nascent manufacturing industry, producing simple consumer goods for the home market such as textiles, plywood and shoes. Typically, the import substitution strategy in Taiwan Province of China was pursued with strict import controls together with a multiple exchange rate system. Nearly half of the importable commodities were under strict quota restrictions, with the tariff rates at over 150 per cent for the major import items. But, as to be expected, this easy phase of import substitution was soon exhausted.

As domestic industries became stagnant, with serious under-utilization of capacity, the Government started to promote labour-intensive manufactured exports, first with the abolition of the multiple exchange rates in 1958 and then with the introduction of a single exchange rate system in 1960 following a large devaluation of the over valued NT dollar. Further, in 1960, the Government undertook several concrete measures to encourage investment in export industries, such as generous tax reliefs.[34] The futility of the import substitution in Taiwan Province of China can be seen from the fact that by 1960 manufacturing sector still remained at only 10 per cent of its net domestic product. However, by 1970, following the shift to export-orientation, manufacturing sector had grown to 26 per cent of NDP. After 1970, the Taiwan Province of China Government began to promote the development of capital-intensive heavy and chemical industries, and the share of manufacturing increased further to 39 per cent of NDP in 1986.[35]

The industrial structure of the Lao People's Democratic Republic and Myanmar today pretty much resembles that of Taiwan Province of China during the latter's import substitution phase. As shown in table I.8, the share of manufacturing in the Lao People's Democratic Republic was 9.7 per cent of its GDP for 1990 and 12.6 per cent for 1991 while the primary sector was 61.1 and 57.3 per cent respectively. For Myanmar, as shown in table I.9, manufacturing sector (including processing) accounted for 9.1 per cent of its total net output for 1990/91, and 8.8 per cent for 1991/92, while its primary sector was 47.8 and 47.1 per cent respectively. Thus, the

---

33 Council for Economic Planning and Development, *Statistical Yearbook* (Taipei, Taiwan Province of China, 1990).

34 See Kuo-shu Liang and Ching-ing Hou Liang, "Trade and incentive policies" in Kwoh-king Li and Tzong-shian Yu, eds., *Experiences and Lessons of Economic Development in Taiwan Province of China* (Taipei, Taiwan Province of China, Academia Sinica, 1982).

35 *Statistical Data Book*, op. cit.

Table I.8. Sectoral distribution of GDP in Lao People's Democratic Republic

Percentage of GDP	1986	1987	1988	1989	1990	1991
Agriculture	**63.0**	**63.0**	**61.5**	**60.0**	**61.1**	**57.3**
Crops	35.9	33.5	32.5	35.9	36.7	31.9
Livestock and fishery	21.5	23.2	23.4	21.3	21.2	21.7
Forestry	5.6	6.3	5.6	2.8	3.2	3.8
Industry	**13.1**	**11.2**	**11.1**	**13.1**	**14.2**	**17.8**
Mining and quarrying	0.2	0.2	0.2	0.2	0.1	0.1
Manufacturing	8.2	7.8	7.4	9.0	9.7	12.6
Construction	3.0	2.0	2.4	2.6	2.9	3.5
Electricity, gas and water	1.7	1.2	1.1	1.3	1.4	1.6
Service	**22.9**	**25.0**	**26.5**	**26.0**	**23.8**	**23.5**
Transport and communications	5.1	6.5	6.7	6.3	5.2	5.0
Whole and retail trade	6.7	6.9	6.3	7.1	7.3	7.0
Banking, insurance, real estate	0.1	0.3	0.2	0.2	0.2	0.6
Ownership of dwellings	2.0	2.0	2.1	1.9	1.9	2.1
Public administration and defense	7.3	7.4	7.6	6.3	5.8	5.6
Nonprofit institutions	1.7	1.8	3.6	4.0	3.3	3.2
Other services	0.1	0.1	0.1	0.1	0.1	0.1
Import duties	**0.9**	**0.8**	**0.9**	**0.9**	**0.9**	**1.4**

Source: Lao People's Democratic Republic, Ministry of Planning and Finance, various years.

Table I.9. Sectoral distribution of GDP in Myanmar

Sr.	Particulars	1986/ 87	1987/ 88	1988/ 89	1989/ 90	1990/ 91	1991/ 92 (Provi- sional)	1992/ 93 (Provi- sional)
1.	**Goods**	**61.3**	**60.8**	**59.4**	**61.0**	**60.9**	**60.4**	**61.6**
	- Agriculture	40.3	39.3	38.5	39.0	38.7	37.6	39.1
	- Livestock and fishery	7.3	7.9	8.0	7.4	7.2	7.7	7.4
	- Forestry	1.3	1.3	1.4	1.8	1.9	1.8	1.8
	- Mining	0.9	0.8	0.7	0.9	0.9	0.9	0.9
	- Processing and manufacturing	9.3	9.2	8.7	9.3	9.1	8.8	9.0
	- Power	0.5	0.6	0.6	0.7	0.7	0.7	0.7
	- Construction	1.7	1.7	1.5	1.9	2.4	2.9	2.7
2.	**Services**	**15.5**	**16.7**	**18.2**	**16.2**	**16.5**	**17.3**	**16.2**
	- Transportation	3.6	3.8	3.5	3.7	3.8	4.0	3.8
	- Communications	0.4	0.6	0.7	0.7	0.7	0.8	0.8
	- Financial institutions	2.6	2.8	3.4	0.5	0.6	0.6	0.6
	- Social and administrative services	4.8	5.2	5.9	6.7	6.8	7.2	6.6
	- Rentals and other service	4.1	4.3	4.7	4.6	4.6	4.7	4.4
3.	**Trade**	**23.2**	**22.5**	**22.4**	**22.8**	**22.6**	**22.3**	**22.2**
4.	**Total net output (1+2+3)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Union of Myanmar, Ministry of National Planing and Economic Development, *Review of the Financial, Economic and Social Conditions for 1993/94.*

manufacturing sector of the Lao People's Democratic Republic and Myanmar is about the same size as that of Taiwan Province of China during its import substitution phase. But the primary sector of the Lao People's Democratic Republic and Myanmar today is larger than Taiwan Province of China's in 1960 because they have a larger resource base for livestock, fishery and forestry.

An economy's trade structure is closely related to its industrial structure. On account of their "closed-door policy", foreign trade was only a marginal activity in the Lao People's Democratic Republic and Myanmar. As shown in table I.10, the Lao People's Democratic Republic' total merchandise exports in 1991, amounting to US$ 97 million, would not be sufficient to pay for a single Boeing 747 jetliner while Myanmar's total exports, at US$ 496 million, was equally minuscule, being 0.7 per cent of the Republic of Korea's, a country with the same size of population. Even taking into account of their unrecorded border trade with China, Thailand, Viet Nam and India, and in the case of the Lao People's Democratic Republic, its sizeable export of hydro-electricity power to Thailand, the foreign trade of the Lao People's Democratic Republic and Myanmar at their present levels is certainly very low by regional standards. Particularly for Myanmar,

Table I.10. Export of Lao People's Democratic Republic and Myanmar

Growth of exports

	1991 exports (millions of US dollars)	Growth rates (percentage)					
		1987	1988	1989	1990	1991	1992
Lao People's Democratic Republic	97	–	–	9.5	24.3	22.7	37.3
Myanmar	498	-19.3	13.8	32.5	15.6	6.9	26.5

Direction of exports

	Asia[a]		Japan		United States		European Community		Australia, New Zealand		Others	
	1985	1991	1985	1991	1985	1991	1985	1991	1985	1991	1985	1991
Lao People's Democratic Republic	71.9	61.1	6.6	5.1	2.7	2.5	0.5	26.3	5.5	0.1	12.7	4.9
Myanmar	46.2	60.3	8.4	8.4	0.8	5.0	8.4	5.5	0.0	0.6	36.3	20.3

Source: Asian Development Bank, *Asian Development Outlook 1993.*

[a] "Asia" means countries in East, South-East and South Asia plus the Pacific islands.

its exports in 1990/91 constituted only 2.6 per cent of its GDP, compared to some 50 per cent in the post-war years of the early 1950s.[36]

Apart from their low volumes, the export structures of the Lao People's Democratic Republic and Myanmar are typically pre-industrial in nature as their export items are essentially agricultural and natural resource products. The Lao People's Democratic Republic' exports are virtually made up of timber and wood products. Myanmar's exports, as shown in table I.11, are based on a broader range of commodities; but they are still

---

[36] See Hal Hill and Sisira Jayasuriya, *An Inward-Looking Economy in Transition: Economic Development in Burma since the 1960s* (Singapore, Institute of Southeast Asian studies, 1986).

Table I.11. Myanmar: exports by type of commodity

(Millions of Kyat)

	Type of commodity	1988/89	1989/90	1990/91	1991/92 (provisional)
I	**Total domestic exports**	**2 168.9**	**2 834.1**	**2 952.6**	**2 925.9**
1.	**Agricultural products**	**127.6**	**432.3**	**942.4**	**1 010.7**
	- Rice and broken rice	53.7	266.3	172.1	251.0
	- Maize	0.6	11.5	12.7	28.1
	- Pulses and beans	52.5	123.1	514.9	428.9
	- Animal feed	6.2	15.1	12.1	13.7
	- Rubber and other	14.6	16.3	230.6	289.0
	- Agricultural products				
2.	**Animal products**	**5.2**	**2.5**	**4.6**	**4.4**
3.	**Marine products**	**61.3**	**134.3**	**164.8**	**156.1**
4.	**Forest products**	**701.5**	**1 013.8**	**1 131.4**	**943.3**
	- Teak log and conversion	600.0	797.9	739.6	488.5
	- Hardwood log and conversion	61.5	92.8	259.4	260.5
	- Other forest products	40.0	123.1	132.4	194.3
5.	**Minerals and gems**	**172.7**	**208.2**	**172.5**	**113.6**
	- Silver	10.2	4.4	4.9	3.1
	- Lead	14.8	6.0	8.6	4.8
	- Zinc concentrates	10.9	12.6	7.1	3.5
	- Copper concentrates	23.7	17.0	35.7	23.9
	- Tin metal	15.7	21.1	16.8	12.0
	- Tungsten concentrates	4.7	2.1	0.8	0.6
	- Other minerals and gems	92.7	145.0	98.6	65.7
6.	**Others**	**1 100.6**	**1 043.0**	**536.9**	**697.8**
II	**Re-exports**	**24.1**	**12.4**	**9.3**	**5.9**
	Total exports	**2 193.0**	**2 846.5**	**2 961.9**	**2 931.8**

Source: The Union of Myanmar, Ministry of National Planning and Economic Development, *Review of the Financial Economic and Social Conditions for 1993/94.*

dominated by agricultural and forest products, in addition to some gem stones. Most of the exports of these countries are destined for the Asia-Pacific markets.[37] In fact, their export structures today are not dissimilar to that of Taiwan Province of China in the early 1950s, which was dominated by sugar and rice, the two items taking up 78 per cent of Taiwan Province of China's total exports in 1953.

If the development experience of Taiwan Province of China were to serve as a guide, the Lao People's Democratic Republic and Myanmar must industrialize. But the proper route for them to follow is to take the reference point of Taiwan Province of China's experience at 1960, not Taiwan Province of China in 1952. This means that the Lao People's Democratic Republic and Myanmar should make a quick transition from import substitution to export orientation by developing labour-intensive industries for exports. At the same time, the Lao People's Democratic Republic and Myanmar should also make use of their natural resources by developing resource-based industries, which give them a comparative advantage in the export markets.

The adoption of export-oriented industrial strategy requires at the beginning a trade policy which will structure incentives to encourage exports while appropriately discouraging imports. This is easily said than done, as most developing countries have failed to introduce effective measures to promote exports while imposing too severe import control regimes with "over-kill" effects. It is here that the successful experience of the NIEs should be instructive for the Lao People's Democratic Republic and Myanmar. Long-term measures to promote manufactured exports involve policies to promote productivity growth and technological progress along with direct and indirect support for infrastructure development, manpower training and export market development. Further, export promotion was operated with progressive tariff reductions and domestic price liberalization. This will eventually lower the overall level of domestic price distortions and at the same time increase efficiency in domestic resource utilization.[38]

(iv) The imperative of macroeconomic balance

Among the key policy measures needed for establishing the precondition for the shift of their industrial development strategies from import substitution to export expansion, the most important for the Lao People's Democratic Republic and Myanmar is to achieve sustained macroeconomic stability through appropriate monetary and fiscal policies. Since both

---

37 For further discussion of Myanmar's trade development, especially in the context of ASEAN, see Mya Than, *Myanmar's External Trade: An Overview in the Southeast Asian Context* (Singapore, Institute of Southeast Asian Studies, 1992).

38 For a general discussion of the trade and industrial policy of the successful Asian and Pacific economies, see *The East Asian Miracle*, op. cit; Bela Balassa, *Development Strategies in Semi-Industrializing Economies* (Baltimore, Johns Hopkins University Press, 1962); and Robert Wade, *Governing the Markets: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, Princeton University Press, 1990).

the Lao People's Democratic Republic and Myanmar are "transitional economies" in the sense of having to reform or restructure their socialist or semi-socialist economies toward the market system, they are inevitably confronted by problems of macroeconomic imbalance and instability in the early stages of their economic reform process. But industrial development simply cannot take place in the absence of macroeconomic stability.

In this regard, the Lao People's Democratic Republic has made a good start and achieved better results than Myanmar. Since embarking on the "New Economic Mechanism" in 1986, the Lao People's Democratic Republic has made substantial progress in transforming its socialist economy towards the market system. The initial round of liberalization was undertaken in 1988 with the government proclaiming 11 new decrees, including financial and fiscal reform, price decontrol, greater autonomy of state enterprises and more freedom for the private sector. These liberalization measures, however, sparked off high inflationary pressures which reached over 60 per cent in 1989, as a result of deteriorating government revenue and uncontrollable credit expansion to state enterprises.

In an effort to restore macroeconomic balance, the Lao Government had to introduce a medium-term structural adjustment programme, designed and financed with assistance from the International Monetary Fund (IMF) and the World Bank. The main objectives were to bring down inflation and to create a stable macroeconomic environment for more structural reforms. Thus, decisive actions were taken to reduce fiscal deficits and to rein in credit expansion. Consequently, inflation was brought down to 11 per cent in 1991 and further to about 6 per cent in 1992. By 1992, government revenue had recovered as a result of tax reforms, and the overall budget deficit (excluding grants) improved significantly, from 20.3 per cent of GDP in 1989 to 9.6 per cent in 1991. Above all, real interest rates became positive again. After the banking reform of 1991, commercial banks have been given autonomy to set deposit and loan rates in accordance with the market forces with minimum interference from the central bank.

The Lao People's Democratic Republic's stabilization programme has no doubt been successful, as manifested in its steady economic growth and greater inflow of foreign investment in recent years. But its structural reforms have not yet been completed, and its economic institutional mechanisms remain fragile, while the country's economic administrators are still in their learning process. The Lao economy is plagued by a weak private sector, low domestic savings, low levels of domestic resource mobilization, large trade imbalances, over-dependence on external assistance, and a large and growing debt burden. Hence there is a clear need for continuing structural reforms and adjustment.

By comparison, the Myanmar economy is larger and more complex, and its problems as well as solutions are inherently more difficult. Its macroeconomic stabilization programme has run into more constraints. Myanmar's pattern of economic development has "its roots in a troubled

history of internal and ethnic strife".[39] But it is also shaped by ideological factors. After 1962, the Burmese economy was developing under centralized state control, a strategy deemed to lead to the "Burmese Way to Socialism". But the same development strategy had exacted high economic costs, because it involved economic isolation from the rest of the world (national self-reliance) in disregard of the structural reality of Myanmar's economy. This resulted in its long period of industrial stagnation or even some degree of de-industrialization.

The new Government in 1988 promised to re-establish external economic linkages. Thus, measures were taken to decontrol agricultural production, encourage foreign investment, legalize border trade, promote greater private sector participation in foreign trade, and adjust the exchange rate. But these liberalization measures need to be taken in a more coherent and concerted manner. It may be noted that successful reforming socialist economies like China and Viet Nam have been able to concentrate on their single-minded pursuit of the reform process without being diverted by any fear of losing political control.

The Myanmar economy is seriously plagued by problems of macroeconomic imbalance caused by the stagnation of domestic production and shortages as well as by the half-reformed nature of the economy (i.e., problems caused by the dual-track price system). Inflation has been soaring and money supply growth has remained high in recent years.[40] Rampant inflation naturally discourages savings and leads to excessive consumption. In fact, people have begun to lose confidence in the Kyat.

An important root cause of Myanmar's high inflation is the chronic fiscal deficits. In the fiscal year 1991/92, for instance, government deficits were 25 per cent of the total revenue. As typical of the other transitional economies, Myanmar has not yet developed a viable revenue base while at the same time it has to subsidize the loss-making state economic enterprises. Unable to borrow from the domestic private sector or as in the case of the Lao People's Democratic Republic to resort to external borrowing, Myanmar's government deficits had to be met by the central bank through printing more money, thereby resulting in an excessive growth of money supply and hence high inflation.

The Governments of the NIEs (with perhaps some exception for the Republic of Korea for a few years) have all along operated highly conservative fiscal policies. Taiwan Province of China in particular was most fearful of inflation as the Government had very bad experience of hyperinflation before it was driven out of the mainland. Fiscal prudence needs to be given more attention by Myanmar. Since effective monetary and fiscal instruments for stabilization are not yet in place, macroeconomic instability will continue to be a constraint for Myanmar's economic development.

---

39 *In Support of Asian Development* (A Study commissioned by Sweden's Department for International Development Corporation, Stockholm, Sweden, November, 1992), p.97.

40 Mya Than,"Economic outlook: Myanmar 1994-95", *Regional Outlook: Southeast Asia 1994-95*, op. cit. It may be noted that official figures for these two items are about half of their levels.

(v) Liberalizing the trade regime

Apart from macroeconomic stability, export-oriented industrialization operates best and more effectively in a liberal macroeconomic environment with minimal restrictions and regulations on trade, as in Hong Kong and Singapore. For the Republic of Korea and Taiwan Province of China, export expansion was accompanied by progressive liberalization of their trade regimes. Thus, the Lao People's Democratic Republic and Myanmar must reform their tariff system which was originally set up for import substitution.

Following the introduction of the New Economic Mechanism, the Lao Government started to promote internal and external trade with price decontrol and by removing the state monopoly on imports and exports. In 1989 import tariffs were simplified and reduced and export taxes were abolished. Import and export licensing system has also been relaxed. All imports and exports other than those on specified lists (for example, rice imports and timber exports) have now been exempted from quantitative restrictions and licensing. The Lao People's Democratic Republic has made significant progress towards trade liberalization over the past few years.

Since 1988 Myanmar has also undertaken measures to liberalize its foreign trade system by simplifying import and export procedures, reducing tariffs and licensing fees as well as allowing both local and foreign enterprises' direct participation in foreign trade, which used to be a state monopoly. The Government also introduced the "import first and export later" policy with a view to promoting foreign trade. But the tariff rates are still high. To encourage more foreign investment and to promote greater domestic resource mobilization, further trade liberalization is clearly necessary.

(vi) Reforming the exchange system

The most effective measure and the one with an immediate impact on exports is the adjustment of the exchange rate. In the Republic of Korea and Taiwan Province of China, and in fact all the successful export-oriented Asian and Pacific economies, trade liberalization and the reform of the exchange system have gone hand in hand, usually starting with a drastic devaluation.

Again, the Lao People's Democratic Republic has achieved a great deal in this direction. Prior to 1988, the Lao People's Democratic Republic operated a multiple exchange rate system, much as Taiwan Province of China did in the 1950s, with separate buying and selling rates for import and export and other purposes. In the Lao People's Democratic Republic a unified exchange rate was established in 1988, following a large depreciation of the Kip. After more devaluations, the official rate for the Kip since 1992 has stabilized at a realistic level, with the spread between the official rate and the parallel market rate being about 1 per cent. The stable exchange rate has also contributed greatly to the Lao People's Democratic Republic's overall macroeconomic stability and brisk economic growth in recent years.

In contrast, Myanmar's exchange rate system at present is unrealistic. The market rate in 1989 was about 10 times the fixed official rate (at 6.5 kyats per US dollar), and over 20 times in 1993, rendering the official rate virtually ineffective even for ordinary business transaction, not to mention promoting export growth. Myanmar apparently learnt from China in introducing the foreign exchange certificate (FEC) system for uses by foreigners. But in China the FEC was from the outset not based on a fixed rate, and China soon operated "swap centres" in its large cities for buying and selling foreign exchange. By January 1994 China abolished the FEC system altogether by unifying its exchange rates.

Myanmar's poor record of macroeconomic management and poor export performance has been due in part to its unrealistic exchange rate. Before any talk of creating a competitive edge for Myanmar's exports, the Myanmar government must set out to urgently reform its exchange system as a matter of top priority.

(vii) Promoting foreign investment

As noted earlier, the NIEs depended at the initial stages on various forms of foreign capital inflow to supplement their domestic capital formation. Singapore, in particular, has all along depended heavily on foreign direct investment. With such low levels of domestic savings, the Lao People's Democratic Republic and Myanmar would all the more need foreign direct investment to fill both their savings-investment and foreign exchange gaps. Apart from its capital supply role, foreign investment, in the experience of Singapore, also serves as a vehicle for the transfer of technology and export market development. Not surprisingly, both the Lao People's Democratic Republic and Myanmar have introduced concrete measures to attract foreign investment.

In July 1988, the Lao Government began serious efforts to attract foreign investment, and a new foreign investment code was published in March 1989, authorizing three forms of investment: business by contract, joint ventures, and wholly foreign-owned enterprises. The code carries such usual provisions as protection of foreign capital against nationalization, allowing repatriation of profits, granting of tax holidays up to four years, and so on. A Board of Investment chaired by the Prime Minister was also set up to approve investment proposals. By the end of 1991, a total of 176 projects worth US$315 million had been attracted, with heavy concentration on tourism, infrastructure and resource exploitation (table I.12).

By the end of 1993, virtually all sectors of the Lao economy were opened to foreign investment. The Government has emphasized priority for medium and small industry, agribusiness and other export-oriented activities. Because of the Lao People's Democratic Republic's small population, low skills level, and lack of access to sea, export-oriented manufacturing industries would not be sufficiently attractive to foreign investors. Hence most foreign capital has flowed into the hotel and tourism sector. With its rich tribal cultures, attractive historical relics and unspoiled natural beauty, the Lao People's Democratic Republic should have strong growth potential

Table I.12. Approved foreign investment, Lao People's Democratic Republic, 1988-1991

	1988		1989		1990		1991		1988-1991	
	$ '000	No.	$ '000	No.	$ '000	No.	$ '000	No.	$ '000	No.
Sector										
Agribusiness	–	–	338	1	140	2	23 310	5	23 788	8
Garments/textiles	207	1	715	3	10 699	9	6 381	12	18 002	25
Wood products	619	3	4 217	3	4 011	4	4 521	6	13 368	16
Other manufacturing	–	–	5 115	13	3 124	6	14 417	18	22 656	37
Mining/petroleum	246	1	22 650	4	18 000	1	5 278	3	46 174	9
Import/export	2 200	2	7 562	16	2 299	12	7 591	9	19 652	39
Hotels/tourism	–	–	1 033	4	2 440	5	96 871	9	100 344	18
Banking/insurance	–	–	4 000	1	–	–	2 000	1	6 000	12
Consulting	30	1	100	3	418	5	210	5	758	14
Construction	–	–	2 639	2	–	–	–	–	2 639	2
Transport	–	–	16 183	1	44 160	3	314	1	60 657	5
Telecommunications	–	–	–	–	–	–	500	1	500	1
Type										
Contract	246	1	2 076	5	20 982	4	886	2	24 190	12
Joint ventures	810	5	31 078	32	10 386	22	130 728	33	173 002	92
Wholly foreign-owned	2 246	2	31 398	14	53 923	21	29 779	35	117 346	72
Total	**3 302**	**8**	**64 552**	**51**	**85 291**	**47**	**161 393**	**70**	**314 538**	**176**

Source: Ministry of External Economic Relations/National Chamber of Commerce and Industry, *Investment Opportunities in the Lao PDR*, December 1991.

for tourism. The Republic of Korea and Taiwan Province of China had a backward tourist industry in their early phase of industrialization. The Lao People's Democratic Republic can also easily benefit from the spillover of Thailand's well established tourist industry. It is conceivable that the Lao People's Democratic Republic's tourist industry may soon become the country's largest foreign exchange earner, as it happend to Thailand in the mid-1980s.

Like the Lao People's Democratic Republic, Myanmar adopted its foreign investment law and procedures in 1988, when the government began to open up the economy. The foreign investment code contains such standard provisions as protection of foreign capital against nationalization, repatriation of profits, and various tax incentives. As shown in table I.13, approved foreign capital by March 1993 amounted to only US$ 583 million, concentrating also mainly on tourism related projects, resource exploitation, and manufacturing for domestic markets. But foreign investment in the promoted areas of infrastructure and export-oriented manufacturing industries has not come up to expectations. For a country of over 43 million population with a rich resource base and a huge domestic market, Myanmar's record of foreign investment performance has not been impressive.

Table I.13. Approved foreign investment in Myanmar

(As of March 1993)

I	Sector	No. of enterprises	No. of companies	Countries/areas
	Foreign investment by economic sectors			
	Agriculture (joint venture)	1	1	Thailand
	Fishery (joint venture)	7	7	Bangladesh, Japan, Singapore, Thailand, United States
	Mining (4 production sharing contract, 1 joint venture)	5	5	China, Hong Kong, Singapore, Thailand, United States
	Manufacturing	17	15	Hong Kong, Japan, Republic of Korea, Malaysia, Singapore, Thailand
	Oil and gas (production sharing contract)	17	12	Australia, Canada, France, Japan, Republic of Korea, Netherlands, United States, United Kingdom
	Transport (joint venture)	1	1	Singapore
	Hotel and tourism (5 foreign-owned, 4 joint ventures)	9	7	Hong Kong, Japan, Macau, Thailand, United Kingdom
	Total	**57**	**48**	

II	**Foreign investment by organizational structure**	Nos.	Foreign capital (millions of US dollars)
	Wholly foreign-owned enterprises	**5**	**88**
	Joint venture with		
	(i) State economic enterprises	24	131
	(ii) Private enterprises including the enterprise which has state equity	6	13
	(iii) Production sharing basis	21	350
	(iv) Co-operative society	1	1
	Total	**57**	**583**

Source: The Union of Myanmar, Ministry of National Planning and Economic Development, *Review of the Financial, Economic and Social Conditions for 1993/94.*

Note: Foreign capital is the foreign portion of total investment.

This points to the fundamental importance of an overall investment climate for successful promotion of foreign investment. Not surprisingly, with its serious macroeconomic imbalances and political constraints, Myanmar's foreign investment promotion records have been dismal, especially compared with the "explosion" of foreign investment influx to the two socialist economies of China and Viet Nam in recent years. It is actually not the structure of incentives, the lack of effectiveness of promotional techniques, or the lack of development potential in Myanmar, but the absence of a favourable macroeconomic environment coupled with perceived political uncertainty by overseas investors that has been largely responsible for Myanmar's lacklustre performance in foreign investment. The immediate policy remedy again points to macroeconomic stabilization.

(viii) Positive government intervention

As the NIEs have achieved a low level of price distortion and depended largely on the market forces to allocate domestic resources and to guide their external competition, it is often assumed that the Governments of the NIEs have been functioning in passive, non-interventionist manner, much in accordance with the prescription of the neo-classical economic textbooks. In recent years, it has been increasingly recognized by development economists, in the nature of what may be called the revisionist view,[41] that successful export-led type of development requires a highly activist government. And the Governments of the NIEs have been anything but passive.

Even in the *laissez faire* Hong Kong, the colonial Government builds infrastructure, provides social services, sets up organizations to promote productivity and to development export markets, and also undertakes macroeconomic management. For the other three NIEs, their Governments are far more interventionist, actively promoting certain industries and even directly participating in business, especially in Singapore and the Republic of Korea. There is thus no accepted economic theory to define the optimal extent of government intervention.

(a) "Legitimate" interventions

It may be argued that the Lao People's Democratic Republic and Myanmar, in comparison with the NIEs, have not even fulfilled their proper roles within what is conventionally considered to be the legitimate confines of government functions. First, the Myanmar Government, in particular, has not even provided the needed macroeconomic stability for economic development. Secondly, the physical infrastructure in the Lao People's Democratic Republic and Myanmar is manifestly backward, partly as a result of their long periods of economic stagnation and partly due to neglect. Infrastructural development is the traditional area of government responsibility. In some areas of infrastructural development, the government has to do it alone; in others it can develop with external financial help or jointly with some foreign multinationals.

As repeatedly argued earlier, the Government's role in the accumulation of physical and human capital is critical for creating favourable development preconditions. The NIEs have been uniquely successful in this critical area, and their experiences, as asserted again and again, should be instructive for the Lao People's Democratic Republic and Myanmar.

We have also discussed how the NIEs have achieved dynamic growth through the "virtuous circle" of high savings and high investment, and noted how the low levels of savings and investment in the Lao People's Democratic Republic and Myanmar have resulted in their low growth. The rates of savings in the Lao People's Democratic Republic, at 1-2 per cent of GDP, are particularly low, so that investment has to be financed by external financial resources (table I.4). The Lao Government in the

---

41 *The East Asian Miracle*, op. cit., p.9.

medium term should strive to reduce such a huge resource gap (i.e., saving/investment gap) through greater domestic resource mobilization and the reduction of its budget deficits. To increase private savings, financial sector reform must be stepped up, with extra efforts to keep inflation low and real interest rates positive.

For Myanmar, domestic savings are higher (at some 12-13 per cent) but still considered low in the context of the NIEs. Owing to its inability to obtain sufficient external finance to fund its investment, Myanmar has a low resource gap. The main challenge for Myanmar is how to raise its domestic savings, which is admittedly a difficult task at present in view of its existing macroeconomic imbalance associated with high inflation, wide fiscal deficits and negative real interest rates. The starting point is again macroeconomic stabilization. Over the longer run, both the Lao People's Democratic Republic and Myanmar may consider the policy of forced savings, which has been highly successful in Singapore and Malaysia by introducing the compulsory pension fund scheme.

As for the promotion of human capital formation, this is not a question of short-term policy remedy, but one of long-term tasks for the Governments of both the Lao People's Democratic Republic and Myanmar. With a small but ethnically diverse population, the Lao People's Democratic Republic will clearly face an uphill task in its efforts to improve human resource development. Myanmar has already attained a basic level of educational development and general literacy; but it still needs to expand skills training as well as to go for qualitative improvement. As shown in table I.7, Myanmar still lags far behind the NIEs in terms of resource commitment to education. Above all, both the Lao People's Democratic Republic and Myanmar should follow the footsteps of NIEs by orienting the education system more towards science and technology and by emphasizing vocation training.

(b) Managing government enterprises

Finally, beyond the above areas of "legitimate" government intervention, the Governments of the Lao People's Democratic Republic and Myanmar may consider playing an even more active role in better managing the transformation of their state sector. As a legacy of having operated a socialist economic system, both the Lao People's Democratic Republic and Myanmar have developed a large state sector, which is characteristically inefficient, with most enterprises operating at a loss due to the "soft budget constraints". The poor performance of their state enterprises has been an important contributing factor to the structural imbalance of these two economies and other economic ills such as budget deficits and high inflation.

In Myanmar, the Government has begun to recognize the problems of the state sector after feeling the increasing financial burdens of having to subsidize its losses. In times to come, the Government will certainly reduce the size of the sector by some forms of privatization or divestment. The Lao People's Democratic Republic has moved faster. It has actually

gone ahead with its "programme of disengagement" by selling off or leasing out many state enterprises. But privatization in all "transitional economies" has proved to be enormously difficult and slow. In the short run, the Governments of the Lao People's Democratic Republic and Myanmar may not be able to privatize as many state enterprises as they want, or in some cases they do not want to privatize them at all on account of their strategic importance. Under such circumstances, the Government has to continue with its state enterprise reforms to ensure that whatever enterprises remain under public ownership operate more efficiently. Can a state enterprise be profitable? How should Government interface with business? Here the successful Singaporean experience should be highlighted.

A recent report by the United States Embassy in Singapore has declared: "Singapore is perhaps the only place in the world where government-controlled firms have proven profitable, in some cases, very profitable".[42] Despite its reputation as a bastion of capitalism and free markets, the Singapore Government actually intervenes heavily in the economy, with the public sector accounting for some three fifths of GDP. The Singapore Government, on its own or through joint ventures with local and foreign enterprises, operates a wide range of industries, from arms making to food processing, from steel to semi-conductors, from shipping to banking, and from business consultancy to property development, straddling almost every industrial sector.[43]

The government enterprises in Singapore are called government-linked companies (GLCs), which are all managed strictly in accordance with commercial principles: GLCs have to pay their workers and management staff market rates of wages and they have to compete in the open market to earn their profits. In other words, they have to operate under hard budget constraints; if they fail, the Government would just shut them down.[44]

The Singapore experience does suggest that state ownership *per se* is not necessarily a critical determinant of enterprise performance. What is more crucial is the behaviour of enterprise, state or private. In other words, it is not ownership but management that matters. In Singapore, all GLCs have to operate much like private enterprises, strongly geared to competition and profit incentives. They enjoy no special privileges or powers, and cannot engage in rent-seeking activity. All businesses in Singapore, state or private, have to observe the same rules of the market-place and to engage in fair and open competition.

---

42 "Singapore's Government-linked companies report" (Prepared by Economic/Political Section, Embassy of the United States of America, Singapore, January 1994).

43 In 1992, there were 50 first-tier government-linked companies (GLCs) and 566 subsidiaries with a total employment of 83,500 and a total capitalization of US$6.5 billion. Some GLCs like the Singapore Airlines and Singapore Telcoms are already well known in the region. *Sunday Times* (Singapore, 6 February 1992).

44 For further discussion of the GLCs in Singapore and their related issues, see Linda Low, *The Political Economy of Privatization in Singapore: Analysis, Interpretation and Issues* (Singapore, McGraw-Hill Book Company, 1991).

State enterprises in the Lao People's Democratic Republic and Myanmar follow different *modus operandi* from their Singapore counterparts, and exist under different institutional environment. But the Singapore experience in the efficient management of its state enterprises should be valuable for the Lao People's Democratic Republic and Myanmar: it is possible for government to revitalize the ailing state enterprises and manage them well before some of them are sold off to the private sector.

Concluding remarks

It is well known that economic development is a highly complex multidimensional process. Apart from the transformation of the production processes of a country, economic development also involves changes and interactions of the value system, social structure, and institutional mechanisms.[45] Many critical determinants are not even economic variables while some of the key economic variables are "zeitgeist" in nature, being products of certain historical circumstances. Because of this, some scholars argue that every "success" story is a special case, being unique by itself.

However, the past development experience of the region has rendered it increasingly evident that the term "NIE" need not be the exclusive "honour" of the four Asian dragons of Hong Kong, Republic of Korea, Singapore and Taiwan Province of China, but it will soon become a generic term for all those developing economies which have successfully transformed their economic structures by letting their economic growth be propelled by dynamic manufactured exports. Malaysia and Thailand are set to assume the title of NIEs by the end of this decade. China's Guangdong province is slated to become another NIE within 20 years. There is no reason as to why the Lao People's Democratic Republic and Myanmar could not themselves become NIEs in times to come, especially given the fact that they are an integral part of the dynamic region.

From the outset, this chapter takes the optimistic view that economic development in the region has proved to be neither culture-specific nor geography-specific. True, the development experiences ha.e certain *sui generis* features to prevent their direct and wholesale transferability to the Lao People's Democratic Republic and Myanmar. But many successful aspects of the experiences of the NIEs, taken eclectically, would still be highly instructive for the Lao People's Democratic Republic and Myanmar. With the return to normalcy in the region, it is only a matter of time that the Lao People's Democratic Republic and Myanmar, riding on the tail of the dynamic economic growth, will catch up with the NIEs.

---

45 Bert F. Hoselitz, "Economic growth and development: non-economic factors in economic development", *American Economic Review* (May 1957).

II. THE RELEVANCE OF AND LESSONS TO BE DRAWN FROM THE EARLY DEVELOPMENT EXPERIENCE OF HONG KONG AND TAIWAN PROVINCE OF CHINA FOR BANGLADESH AND NEPAL*

This study examines the lessons that may be drawn from the early development experiences of the Asian newly industrializing economies (NIEs) for the least developed countries in the Asian and Pacific region. The specific task of this chapter is to examine the relevance of the early development experiences of the Asian NIEs in general and of Hong Kong and Taiwan Province of China in particular, to the development policies and strategies of the two South Asian least developed countries, namely Bangladesh and Nepal. The study examines the following issues:

(a) The role of the government in the development process in such areas as agricultural development and industrialization, mobilization of domestic resources, human resources development, technology transfer, working relationships with the private sector and the labour force;

(b) The relationship between trade regime and economic development with special reference to trade liberalization and exchange rate policies, the promotion of manufactured exports, and utilization of foreign capital; and

(c) The relationship between macroeconomic management and economic growth with special reference to fiscal and monetary policies.

The chapter is organized as follows. The economic characteristics and key issues of development policy of the two South Asian least developed countries are summarized in section A. The characteristics and key factors for economic success in Hong Kong and Taiwan Province of China are discussed in section B. The experiences of the other two NIEs are brought in wherever appropriate. Policy recommendations for Bangladesh and Nepal, on the basis of the discussion in the first two sections, are then presented in section C.

A. Characteristics and key economic issues of Bangladesh and Nepal

(i) General features

While Bangladesh and Nepal are similar in geographical size (an area of about 140,000 sq km) and have low levels of per capita income

---

* This paper has been prepared by Professor Edward K.Y. Chen, Centre of Asian Studies, The University of Hong Kong. The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the institution with which the author is associated.

(US$220 and US$170 respectively for 1992), the two countries are quite different in terms of population (114 million and 20 million respectively for 1992) and geographical features (table II.1). Nevertheless, owing to their similar stages of economic development and production structure, it is possible to consider the two countries together in the discussion of their key economic characteristics and problems.

Both countries face similar problems of low agricultural productivity which is related to the size of farms and land distribution, marketing of

Table II.1. Bangladesh and Nepal: basic economic indicators

	Bangladesh	Nepal
Population		
1992 (million)	114.4	19.9
1870-1980 (percentage average annual growth)	2.6	2.5
1980-1992 (percentage average annual growth)	2.3	2.6
Area (sq km)	114 000	141 000
GNP per capita		
1992 (US$)	220	170
1980-1992 (percentage average annual growth)	1.8	2.0
GDP		
1970-1980 (percentage average annual growth)	2.3	2.7
1980-1992 (percentage average annual growth)	4.2	5.0
Agriculture in GDP (percentage)		
1970	55	67
1992	34	52
Manufacturing in GDP (percentage)		
1970	6	4
1992	9	8
Services in GDP (percentage)		
1970	37	21
1992	49	30
Gross domestic investment in GDP (percentage)		
1970	11	6
1992	12	22
Gross domestic savings in GDP (percentage)		
1970	7	3
1992	6	12
Export of goods and services in GDP (percentage)		
1970	8	5
1992	10	19
Inflation		
1970-1980 (percentage average annual growth)	20.8	8.5
1980-1992 (percentage average annual growth)	9.1	9.2

Source: World Bank, *World Development Report 1994* (Washington, D.C., World Bank, 1994).

agricultural inputs and outputs, irrigation and water control, availability of credit, agricultural pricing policies, and the use of modern technologies and fertilizers. Rural poverty is also related to the relative lack of success in creating non-farm economic activities via rural development.

The most serious geographical problem of Nepal is no doubt its land-lockedness. Moreover, Nepal is mountainous and hilly, leaving only the relatively small *Terai* area suitable for high-yielding agriculture.

Bangladesh on the other hand has a long coastline, but unfortunately this also exposes the country to frequent and serious floods, tidal waves and cyclones. Both countries also have relatively limited natural resources and fertile land.

(ii) Industrialization

Although attempts to industrialize the economy in both Bangladesh and Nepal started relatively early in the 1950s, the results achieved have been disappointing. Like other South Asian countries, Bangladesh and Nepal engaged in protectionist import substitution policies for a long time before switching to export-oriented industrialization. Until recently, both countries exemplify the typical drawbacks of import substitution policies. High distortions resulted from the protectionistic trade regime. The policies were biased against the export of both agricultural and manufactured products. Owing to low levels of domestic resource mobilization and low saving rates, production capacity is limited and productivity increase slow. An effective use of foreign resources could have improved the situation. However, foreign investment was inhibited by such factors as underdeveloped infrastructure, lack of supporting industries and local supplies, scarcity of skilled and professional labour and bureaucratic inertia and institutional constraints. These problems could not be adequately compensated by offering tax and other concessions.

The industrial base of both countries is still narrow and weak, concentrating mostly on garments although carpets are also an important export item for Nepal. Recent policies of trade liberalization are on the right track, but there have been problems in implementation of such policies due to institutional and administrative weaknesses.

(iii) Macroeconomic management

For the most part, Bangladesh and Nepal have not been successful in establishing a stable economic environment that promotes business initiative and activity. The inflation rate was relatively high. For Nepal, the average annual rate of inflation was 8.5 per cent for the period 1970-1980 and 9.2 per cent for 1980-1992. For Bangladesh, the corresponding figures were 20.8 per cent and 9.1 per cent respectively for the same two periods. Nevertheless, fiscal and monetary policies of both the countries were more prudent than in many other developing countries. The money supply, by-and-large, increased at rates no more than 20 per cent throughout the 1970 to 1992 period. Inflation was largely the result of

structural problems. In Bangladesh, despite the lack of success of diversifying sources of revenue, government budgets experienced surpluses rather than deficits, though the revenue surplus decreased over time. On the other hand, Nepal's public finance is characterized by significant instability with ever-widening budgetary deficits. It has also not been able to diversify its revenue sources, and has to rely heavily on indirect taxes. Owing to the low export capability and the considerable demand for imports, it is expected that huge trade deficits will occur in the two countries. Both depend heavily on official development assistance. In 1991, the official development assistance received by Bangladesh and Nepal were respectively 7 per cent and 13.6 per cent of their GNP.

The total outstanding external debt as a percentage of exports and GNP for Bangladesh were 198 per cent and 29 per cent in 1992 while for Nepal the ratios were 147 per cent and 29 per cent respectively. The total debt servicing ratio was 17.1 per cent in Bangladesh for the same year and was 11.7 per cent in Nepal. In the case of Nepal, the debt servicing ratio was only 3.2 per cent in 1980. In Bangladesh the debt servicing ratio has been decreasing; the ratio was 23.2 per cent in 1980. There is a general consensus that prudent economic management, resulting in a stable macroeconomic environment is a major contributing factor in the rapid economic growth of the Asian NIEs. A stable macroeconomic environment is conducive to domestic and foreign investment, and business activity in general.

(iv) Human resources development

The level of human resources development is low in Bangladesh and Nepal. In 1990, the adult illiteracy rate in Bangladesh and Nepal was 65 per cent and 74 per cent respectively (table II.2). In Bangladesh, only 4 per cent of the relevant age group was enrolled in tertiary education; in Nepal it was 7 per cent. The standard of health, sanitation and nutrition is also low. Infant mortality rate was still over 90 in Bangladesh and Nepal in 1992, though this represented a significant improvement over the rate of about 150 in 1970. Life expectancy at birth was only 55 for Bangladesh and 54 for Nepal in 1992. Population growth has continued to be rapid resulting in very slow growth in per capita income. During the period 1980-1992, per capita income growth was 1.8 per cent in Bangladesh and 2 per cent in Nepal. In the latter there is no indication of the population growth rate slowing down and the total fertility rate is expected to decline only slightly from 5.5 per cent in 1992 to 4.8 per cent in the year 2000. On the other hand, Bangladesh has been more successful in population control due to wider use of contraceptives. Total fertility rate in Bangladesh declined from 7 in 1970 to 4 in 1992 and is expected to decline further to 3.1 in the year 2000.

(v) Saving and investment

It is well established that the rate of saving is a crucial determinant of economic growth in developing countries. Authors such as Arthur Lewis and W. W. Rostow maintained that a 10-15 per cent saving rate is

Table II.2. Bangladesh and Nepal: basic social indicators

	Bangladesh	Nepal
Life expectancy at birth (years) 1992	55	54
Infant mortality rate		
1970	140	157
1992	91	99
Population with access to safe water (percentage of population) 1990	78	48
Urban population (percentage)		
1970	8	4
1992	18	12
Adult literacy (percentage) 1990	65	74
Primary enrolment rate (percentage)		
1970	54	26
1991	77	-
Tertiary enrolment rate (percentage)		
1970	3	3
1991	4	7

Source: World Bank, *World Development Report 1994* (Washington, D.C., World Bank, 1994).

required for any economy to take off. While this minimum threshold may be required for modern economic growth to start, there is no clear cut and practical evidence to show that saving and investment rates are highly correlated with the rate of economic growth. Indeed, among developing countries with similar growth rates, the saving rates can differ widely. Countries with insufficient domestic savings have no choice but to depend on foreign resources in the form of aid, loans or foreign direct investment to assist their economic development. Many countries, however, become increasingly dependent on external resources without achieving sustained growth. A few countries, such as the Republic of Korea, managed to build up their production capacity with the help of external resources and eventually become capital exporters. In Bangladesh and Nepal, the saving rates have been relatively low. In Bangladesh, the saving rate decreased from 7 per cent of GDP in 1970 to 6 per cent in 1992. However in Nepal, the saving rate increased from 3 per cent in 1970 to 12 per cent in 1992. Interest rates, and in particular real interest rates, play a critical role in determining the level of savings in a country. While real interest rates have not been high in both countries, they have nevertheless, been positive for most of the time despite the relatively high rates of inflation. However, the low level of development of financial institutions in both countries poses difficulties in mobilizing savings especially in the rural sector.

B. The growth models of Hong Kong and Taiwan Province of China

While the Asian NIEs are often treated as a group because of their comparable economic success, their experiences have been diverse in many ways. However, the single most important common factor is undoubtedly the export-oriented industrialization strategies adopted by all of them, despite the fact that with the exception of Hong Kong they also underwent an earlier stage of import substitution.

It may seem evident today that export-oriented industrialization is a better strategy than import substitution. Indeed it is the traditional view that free trade on the basis of each country's comparative advantage is the best for all concerned and for the world as a whole. But we should bear in mind that in the 1940s and 1950s and even in the early 1960s when the Asian NIEs embarked on industrialization, development economists and policy-makers, almost without exception, regarded export-oriented industrialization at the early stage of economic development as unviable. The reason is obvious. How can the infant industry products of a developing country compete in the world market with those of the developed countries? Import substitution in the form of protecting infant industries behind a high tariff wall was therefore the norm of industrialization strategy. Protectionism is usually accompanied by a low interest rate policy for the encouragement of the use of capital and an overvalued exchange rate for the encouragement of the import of capital goods. All these measures are unfortunately price-distorting and have a long-term negative impact on economic development.

The stages and types of industrialization can be classified into the following:[1]

(a) *Import Substitution 1 (IS1)*, producing consumer goods; using protectionist measures to groom infant industries;

(b) *Import Substitution 2 (IS2)*, producing capital goods and consumer durables;

(c) *Export Orientation 1 (EO1)*, producing labour-intensive light manufactured goods; and

(d) *Export Orientation 2 (EO2) and Export Orientation 2 Complex (EO2-complex)*, producing technology/capital/knowledge-intensive industries; developing services, especially financial; undergoing technological and economic restructuring.

The economic take-off and rapid, sustained growth of the Asian NIEs took place during the stage of EO1. But it does not imply that a developing country can leapfrog the import substitution stages altogether. The

---

[1] E.K.Y. Chen, "The economics and non-economics of Asia's four little dragons", *Inaugural Lecture*, The University of Hong Kong, 26 January 1988.

experience of the Asian NIEs however suggests that the IS2 stage should be skipped. Both Taiwan Province of China and the Republic of Korea went through IS1 which laid the foundation for their successful export-oriented growth. Both, however, switched to EO1 after a short period of IS2 during which serious difficulties were encountered. This was simply because comparative advantage had yet to be built up in the production of capital and technology intensive products. The experience of the Asian NIEs suggests that such a stage of IS2 development should only be attempted after a stage of rapid growth under EO1. Hong Kong and Singapore, because of the small size of their domestic markets, did not really go through IS1, not to mention IS2, before they embarked on export-oriented industrialization. But it should be noted that Hong Kong and Singapore are special rather than general cases. Their long period of entrepot trade experience serves as a substitute for IS1 and as a precondition for export-oriented economic growth.

This pattern of economic growth of the Asian NIEs has considerable significance. First, their experience generally supports the neo-classical assertion of the superiority of competitive market forces over a protective economic environment. But given the initial imperfect market conditions in the NIEs, the hand of the government, with perhaps the exception of Hong Kong, is far from being invisible in their economic development. In the case of Hong Kong, the dominance of the rule of law and the less imperfect initial market conditions perhaps explain the relatively smaller role of the government. But the role of the Hong Kong Government in infrastructure building and in the allocation of land should not be understated. Thus, Western observers like Milton Friedman are largely wrong when they claim that the success of the Asian NIEs is based on *laissez faire* free market forces without government intervention. As a matter of fact, the experience of the Republic of Korea, Singapore, Taiwan Province of China and also of Hong Kong rejects the view that government policy cannot overcome market failures because government failure is even more serious than market failure. It is true that the adoption of an export-oriented industrialization strategy implies getting prices right so that the products can be competitive in the world market. But it is not true that this can be achieved through automatic adjustments. The role of the government has been important in getting prices right, in setting objectives, and in implementing policies. For example, monopolies have to be curbed, labour and capital market imperfections rectified, overvalued exchange rates corrected, trade restrictions reduced, and incentives for exports established. Thus, what is important is a kind of neo-classical or pro-market intervention rather than the invisible hand of the classical school.

Secondly, the experience of the Asian NIEs contradicts the thesis of the neo-Marxian dependency school that the periphery developing countries will continuously be exploited by and be dependent on the core developed countries if developing countries do not withdraw from the international economy. The experience of the Asian NIEs demonstrates that integrating into the world economy through trade and investment has contributed significantly to their economic success.

An early attempt to generalize the development experience of Hong Kong was the presentation of a neo-classical model to explain the economic success of Hong Kong in terms of the right economic policies it adopted.[2] The authors specified the following characteristics of the Hong Kong economy: (a) Free trade; (b) development of light and labour-intensive industries for export in line with its comparative advantage; (c) the prevalence of flexible and adaptable small industry; (d) the adoption of non-intervention economic policies granting maximum degree of economic freedom and therefore making possible the growth of entrepreneurship; and (e) the adoption of prudent macroeconomic policies in minimizing the size of the public sector and generating budgetary surpluses, and in providing price stability.

The early economic success of Hong Kong is therefore based on an export-oriented industrialization strategy in line with its comparative advantage and within the framework of a free trade regime. In addition, a favourable macroeconomic environment was created to attract domestic and foreign investment so that the economy's competitiveness can be maintained in the long run and structural change can be undertaken. However, this Hong Kong model of economic development may not be directly applicable to economies such as Bangladesh and Nepal.

First, Hong Kong may be regarded as a special case because it does not have an agricultural sector of any significance. Hong Kong therefore does not have to deal with such problems as land distribution, rural poverty and unemployment, and the question of sectoral balances.

Secondly, not only is Hong Kong an island with a deep harbour, it also has a relatively long period of international (entrepot) trade experience before its adoption of the export-oriented industrialization policy. Thus in the case of Hong Kong, entrepot trade rather than import substitution constituted a pre-condition for its industrialization. This means that it is still not possible for a developing country to embark on export-oriented industrialization from a zero industrial base despite the fact that rapid economic growth invariably occurs under export-oriented industrialization stage 1. Hong Kong and Singapore are special cases because of their earlier trade experiences.

In both the Republic of Korea and Taiwan Province of China, export-oriented industrialization stage 1 had to be preceded by the stage of easy import substitution. The crucial question is therefore when a developing country should switch from its easy stage of import substitution to the early stage of export-oriented industrialization in line with the prevailing comparative advantage of the economy.

Thirdly, Hong Kong's experience was also unique in that it benefited from a huge inflow of resources in the form of entrepreneurs and capital from China with the assumption of power of the communist regime in the country in 1949. As noted above, even in the case of Hong Kong, it is not

---

2 B. Glassburner and J. Riedel, "Government in the economy of Hong Kong", *The Economic Record*, 1972, 48(1): 58-75.

correct to say that there has been a strict observance of the *laissez faire* philosophy in its economic policy. The role of the government in Hong Kong was certainly much less visible than in the case of other NIEs, but the development process was nevertheless greatly facilitated by the government. For example, the Hong Kong Government has a monopoly in the development and allocation of land which is the most scarce factor of production in Hong Kong. The massive housing programme undertaken by the Government can be regarded as a kind of social wage helping to maintain competitive labour costs. The Hong Kong Government also set up many statutory organizations which played an important part in promoting trade and industry in the early stages of its industrialization. These include the Trade Development Council, the Productivity Council, the Export Credit Insurance Council, and the Vocational Training Council. Moreover, the Government played an active part in building up physical infrastructure and in developing and providing education and health care services.

The experience of Taiwan Province of China is more relevant to Bangladesh and Nepal. First, it has a larger economy and an important agricultural sector. Before its modern economic growth, it depended on the export of a limited number of primary commodities.

Secondly, the early industrialization experience of Taiwan Province of China followed the traditional pattern. It started with import substitution and in the late 1950s switched from the easy stage of import substitution to the difficult stage. Had this difficult stage of import substitution dragged on, its economy would have been no different from those of other countries in the region such as India, Indonesia and the Philippines. However, at the critical moment of encountering some difficulties at the early stage of the difficult import substitution phase, there was a decisive policy shift towards export orientation. It is difficult to explain how this happened. Perhaps, it was by chance or because at that time it benefited from the sound economic advice from such prominent economists as Professors S.C. Tsiang and T.C. Liu. Or perhaps it had flexible and adaptable technocrats. However, even if the technocrats were willing to make changes, there was no guarantee that such policies would be effectively implemented. The cooperation of the private sector was also required.

In the late 1950s, two important actions were taken by the Government of Taiwan Province of China. First, the grossly overvalued exchange rate was devalued from NT$6 to US$1 to NT$40 to US$1. This action was taken against the advice of some officials and economists who maintained that it would be ineffective to promote exports through a sharp devaluation because the price elasticity of demand for its exports was very low. It was also believed that a sharp devaluation would generate severe inflation pressures.

The second important action taken was to increase the nominal interest rate to encourage domestic savings. The prevailing view was that a lower than equilibrium interest rate was beneficial to developing countries in encouraging the import of capital goods and industrial raw materials. The bureaucrats who decided to carry out these crucial changes were

proved right. While exports were promoted and domestic savings were encouraged, inflation was kept under control. Rapid economic growth took place while the country was undertaking the first stage of export-oriented industrialization.

The experience of Taiwan Province of China with regard to the development of its agricultural sector is of considerable relevance to Bangladesh and Nepal. Land distribution was highly unequal in Taiwan Province of China before its land reform in the early 1950s. Agricultural productivity and output were low and there was little crop diversification. Land reform was successfully implemented in Taiwan Province of China and resulted in a significant increase in agricultural productivity and output. Rural development was also carried out successfully and resulted in diversification of economic activities in the countryside and increased income of the rural population. At the same time, in line with the surplus labour model of Arthur Lewis, there was a significant outflow of resources, both human and capital, from agriculture to industry.

Taiwan Province of China has consistently maintained prudent macroeconomic policies. The budget was generally in surplus and the run-away inflation experience of the 1940s was a constant reminder of the importance of controlling inflation through tight monetary policy and cautious fiscal management. At one point it had the problem of large trade surpluses that generated inflationary pressures in the domestic economy, making it necessary for measures of monetary sterilization. With the exception of a few years when the economy was subjected to severe external shocks, Taiwan Province of China was able to maintain a stable macroeconomic environment that encouraged business expansion.

C. Policy recommendations for Bangladesh and Nepal

In the light of the early development experience of Hong Kong and Taiwan Province of China discussed above, recommendations for further development of Bangladesh and Nepal are given below.

(i) Agriculture

Bangladesh and Nepal share the common problem of an unequal distribution of land. In Bangladesh, only 5 per cent of farms are larger than 7.5 acres, but constitute 26 per cent of all farm area. In Nepal, about two thirds of rural households still have less than 1 hectare of land, accounting for less than one fifth of the total farm area. There is a high proportion of landless people in the rural areas. In Bangladesh, over 50 per cent of the rural households are landless if we include those who own land of less than 0.5 acre. As a result, share-tenancy system is widespread. Moreover, there is a high degree of fragmentation of arable land.

Many attempts have been made in both countries to redistribute land under various land reform programmes. However, they have not been successful. In Bangladesh, a special committee has been set up recently to make a fresh attempt at land reform. However, it is still unclear whether this committee's recommendations can be effectively implemented.

The problems of agricultural development in countries like Bangladesh and Nepal are often not only related to agricultural production. The problems are also in marketing and distribution and the lack of adequate transport. For example, in Nepal, there has always been the problem of transporting agricultural produce from the surplus to the deficit areas. Access is difficult for remote districts in the mountains and hills. Cash crops are not well developed and it is difficult to raise agricultural productivity because of lack of skills and funds. Attempts at raising farm output and productivity by providing subsidized inputs such as fertilizers to farmers have not been successful. The problems are exacerbated by fragmentation and small size of farms which restrict the use of modern technology. The physical features of the country add to the difficulties. In Nepal, irrigation is difficult because of the mountainous terrain; and only 20 per cent of arable land is irrigated. In Bangladesh, water control is difficult because of floods. Rural industrialization may be a means to provide off-farm employment and thereby create additional income for the rural population. Unfortunately, such attempts have only achieved limited success in both countries owing partly to remoteness of many rural areas that make rural industrialization and marketing of industrial products difficult.

The state of the agricultural sector in Taiwan Province of China before its land reform was not much different from that of Bangladesh and Nepal today. Land reform in Taiwan Province of China was successfully implemented in three stages: rent reduction, sale of public land and the land-to-the-tiller programme. The rent reduction programme was implemented in 1949, capping the rent to 37.5 per cent vis-à-vis the prevailing rent of 50-70 per cent of the annual yield of the main crop. As expected, it was at first difficult to enforce the measure. Non-compliance was widespread. However, the Government took a strong stance and introduced a massive inspection and supervision programme.

The second stage of land reform was the sale of the ex-Japanese owned land (both government and private) to the tenant farmers. The amount of such land was significant, constituting 20 per cent of all arable land. By the time the sale was completed in 1953, 35 per cent of such land was sold to cultivators, 40 per cent was retained in the public sector and the rest leased to private cultivators.

The final stage of the land reform programme took place in 1953-1954 and consisted of the purchase by the Government of the leased land and its sale to cultivators. Those who were forced to sell their land were compensated mainly by giving them public enterprise stocks and government bonds. By the end of the land reform programme, the tenancy rate dropped from 38 per cent to 15 per cent.

Land reform in Taiwan Province of China was highly successful in terms of its impact on farm organization and agricultural output. It was reported that agricultural output increased by 10 per cent per annum from 1946 to 1951. Land reform resulted in increasing the percentage of owner-farmers (83 per cent in 1957) and smaller scale farms which made more intensive use of labour and provided a greater choice in crop production. Coupled with the agricultural pricing policy that discouraged rice production, the land reform programme resulted in rapid development in multiple cropping and agricultural diversification. The Government purchased and procured rice at a price relatively lower than the market price, while at the same time providing guaranteed prices for other crops such as sugarcane, corn, mushroom and asparagus. Such a policy represented a hidden rice tax that served the double purpose of stabilizing the price of rice and encouraging agricultural diversification. Rice production in Taiwan Province of China decreased from 50 per cent of total agricultural production in 1949 to 29 per cent in 1971. On the other hand, the growth of cash crops increased farm incomes.

The lesson to be drawn from the experience of Taiwan Province of China is that land reform plays a critical role in agricultural development where widespread tenant farming and landlessness exist. But the government must have the determination and political will to carry out these reforms. Financial incentives should be provided to landlords for giving up their land. However, land reform is only a necessary condition for agricultural development. As is well known, an integrated approach must be adopted to deal with agricultural problems. In the case of Bangladesh and Nepal, even if land reform programmes can be successfully implemented, measures must be in place to ensure that farmers that are given land have access to the required agricultural inputs and skills. Agricultural credit and extension services must be provided. There is also a need to improve infrastructure and transportation in rural areas and to provide adequate financing. International assistance is therefore essential to overcome the problem. Farmers should also be encouraged to form cooperatives to undertake small scale projects. Large projects will have to be undertaken by the government or international agencies. Some success has been made in Nepal in attempts to form farm cooperatives with government subsidies and such attempts should be encouraged.

Agricultural diversification is feasible for both Bangladesh and Nepal. Bangladesh is nearly self-sufficient in rice and so is Nepal in grains. There are opportunities for Nepal to diversify into such crops as sugarcane, tobacco, jute, cotton, tea and ginger.

Rural development was quite successful in Taiwan Province of China. It was based on careful selection of location for rural industrialization. On the other hand, rural industrialization was less successful in the Republic of Korea as remote areas were chosen for development. Rural industrialization if successfully implemented would serve the dual purpose of absorbing the rural surplus labour and promoting the export of labour-intensive manufactures. Rural industries could only be set up after a careful consideration of local factor inputs and transport infrastructure.

(ii) Industrial development strategy

There is a general consensus that while import substitution is a necessary pre-condition for industrialization, a country must not engage in it for too long. A high rate of economic growth is usually achieved under export-oriented industrialization. The major problem of import substitution is the restrictive trade regime which accompanies it and which normally includes a highly restrictive import policy and a grossly over-valued exchange rate. Both Bangladesh and Nepal realize the need to be more outward-looking and for adopting an export-oriented approach. In Bangladesh, measures have been undertaken to liberalize its trade regime. In the past, import control in Bangladesh was extremely complex and tight and quantitative restrictions were widely used. Importers of industrial raw materials and intermediate goods were given passbooks with specified import items and entitled amounts. Despite its large population, the domestic market of Bangladesh is small because of its low level of purchasing power. Protectionist policies result in inefficient and high cost production for the domestic market. Over time, this means that firms can only afford to use outdated production technologies to produce low quality products. Restrictions on the import of luxury goods and tax concession for the import of capital goods are still in existence. The restrictions on luxury goods imports have only encouraged the setting up of inefficient domestic industries in these areas. The concession given to capital goods imports has resulted in the use of inappropriate technology and has inhibited the growth of domestic capital goods industries.

With regard to export policy, the export incentives provided by the Bangladesh Government are weak and inadequate. They are also concentrated on a few products like garments, textiles and leather. At present, the domestic value-added content of exports is no more than 20 per cent of their value.

It is recommended that Bangladesh should intensify its efforts at trade liberalization. Quantitative restrictions on imports should be removed to the extent possible and if controls are deemed to be necessary, they should be simple and transparent. Bureaucratic efficiency must be improved and trade liberalization must not be undertaken to bestow political favours. On the other hand, there is less urgency to remove or lower import tariffs. In the case of Taiwan Province of China, trade liberalization in terms of tariffs reduction was undertaken gradually over a considerable period of time. However, the current tariff structure of Bangladesh needs to be rationalized. The objectives of raising revenue and industrial assistance must not be mixed in devising tariff structure and rates. Stronger and more pervasive export incentives should be introduced. In this connection, it may be noted that unlike the case of Taiwan Province of China, the exchange rate of Bangladesh has not been significantly over-valued. There is perhaps no need for Bangladesh to change its exchange rate. However in the past, export industries obtained substantial benefits from the export performance benefit scheme through foreign exchange allocated at the official exchange rate which is lower than in the secondary exchange market. However, with the recent unification of the exchange rate, exporters no longer get this benefit. New export incentives should therefore be devised.

In the case of Nepal, trade liberalization policy was constrained by the high volume of trade with India which had a restrictive trade regime. In the past, if trade was liberalized, it would lead to large smuggling of imported goods to India's protected market because of the porous border. However, it is now possible for Nepal to pursue a more vigorous trade liberalization policy because its dependence on trade with India has decreased, and more importantly, because India has itself initiated trade liberalization measures. Recently, Nepal has undertaken some measures to liberalize its trade regime under the structural adjustment programme. However, the liberalization process has not gained much momentum and has not been able to build up private initiative and confidence. In the case of both Bangladesh and Nepal, it is necessary not only to introduce new policies and reforms but to establish an efficient and effective bureaucracy which would give domestic and overseas investors sufficient confidence in operating businesses in the countries.

Two other aspects in the industrialization process of Taiwan Province of China deserve consideration. First, industrialization in Taiwan Province of China at the outset was characterized by geographical diversification with industries located not only in Taipei, the capital, but also in the central part (Taichung) and in the south (Kaosiung). This has prevented overcrowding and infrastructural bottlenecks around the metropolitan area as in the case of Bangkok, Jakarta and Manila. This process of industrial dispersal has also resulted in maintaining greater regional balance and better use of local resources.

Second, although an export processing zone (EPZ) was set up in Kaosiung as early as 1966, this was not followed by more zones for some time. This illustrates that it is important to concentrate on one or two zones at a time in order not to spread resources too thinly. The location of EPZs must be carefully chosen to ensure access to supplies of inputs and market outlets and they should not be undertaken as a means to develop depressed areas. Moreover, an EPZ should not become a permanent enclave. Measures must be taken to encourage the building up of linkages between business operations inside and outside the zones. At present, there are nine EPZs in Nepal. This is far too many and some are located in remote areas that will pose difficulties in developing export-oriented industries.

(iii) Investment and savings

Compared to the early experience of the NIEs, the domestic saving rates in Bangladesh and Nepal are not exceptionally low, bearing in mind that Hong Kong, the Republic of Korea and Singapore had low saving rates in the 1960s (table II.3). The gross domestic saving rates in Hong Kong, the Republic of Korea and Singapore were estimated at 6 per cent, 1 per cent and -3 per cent respectively in 1960. The saving rate of Taiwan Province of China was only 3 to 5 per cent in the 1950s. Nonetheless, these countries grew extremely fast and saving rates increased substantially with development. Moreover, partial financial repression existed in Taiwan Province of China and in the Republic of Korea during their early stage of

Table II.3. Gross domestic savings in selected Asian economies

(Percentage of GDP)

Economy	Saving rates				
	1960	1965	1970	1971-1980	1981-1990
Hong Kong	6	29	25	27.5	30.5
Republic of Korea	1	8	15	22.3	31.8
Singapore	-3	10	21	30.0	42.3
Taiwan Province of China	13	22	26	32.2	32.9
Myanmar	11	13	9	12.3	12.4
India	14	16	18	20.5	20.3
Indonesia	8	8	11	22.6	31.8
Malaysia	27	24	22	30.4	33.2
Thailand	14	19	22	21.5	24.5

Source: A. Chowdhury and I. Islam, *The Newly Industrializing Economies in East Asia* (London, Routledge, 1993).

development (table II.4). Thus, it seems that it is not essential for developing countries to have very high saving rates at the initial stage of economic development. Domestic savings could be supplemented by foreign resources in the form of aid, loans or private flows. The crux of the matter is whether a developing country would be able to reduce its dependence on foreign resources over time with a substantial increase in its domestic saving rate. The saving rate in Hong Kong increased from 6 per cent in 1960 to 29 per cent in 1965. In the case of Singapore, it increased from -3 per cent in 1960 to 10 per cent in 1965 and 21 per cent in 1970.

Table II.4. Financial deepening – M_2/GDP

(Percentage)

Economy	1961-1970	1971-1980	1981-1990
Hong Kong	89.3[a]	85.7	155.0
Republic of Korea	19.0	33.7	36.8
Singapore	59.8[b]	61.7	78.8
Taiwan Province of China	34.1	58.1	110.2
India	24.0	31.2	44.7
Indonesia	7.5[c]	16.1	24.3
Malaysia	29.4	44.2	88.2
Thailand	26.0	35.8	57.6

Source: Asian Development Bank, *Asian Development Outlook*, various issues.

[a] 1965-1970.

[b] 1963-1970.

[c] 1966-1970.

Another interesting point is that there is no clear relationship between the real deposit rate and the saving rate (table II.5). In the case of Taiwan Province of China, there is some evidence that domestic savings were encouraged by high real interest rates. However, the evidence was weak for other NIEs. What are then the reasons for the rising saving rates in the course of economic development of the NIEs? The explanation seems to lie in the development strategy adopted by the NIEs, namely export-oriented industrialization instead of import substitution, and outward-looking instead of inward-looking economic policies. There seems to be some evidence that a high saving rate is related to export-oriented industrialization because incomes earned from exports have a higher tendency to be saved and invested. Notwithstanding the perception that foreign capital inflows may discourage domestic saving, NIE experience shows that inflows of foreign capital have a positive effect on the domestic saving rate.[3]

---

[3] E.K.Y. Chen, "Domestic saving and capital inflow in some Asian countries: a time-series study", *Asian Survey*, 1977, 17(7): 679-687.

Table II.5. Real deposit interest rates, 1966-1983

	Hong Kong	Republic of Korea	Singapore	Taiwan Province of China
1966	5.4	6.4	3.5	7.4
1967	2.9	7.0	4.1	5.4
1968	2.1	8.5	4.9	3.1
1969	2.2	8.5	3.9	3.5
1970	-2.4	6.3	4.0	6.3
1971	-3.9	5.9	2.3	6.0
1972	-2.9	0.2	0.3	2.9
1973	-4.3	-1.9	-3.8	-5.0
1974	-3.2	-2.5	-5.2	-14.5
1975	0.3	-4.0	0.1	9.3
1976	-0.6	-4.1	3.8	5.8
1977	-1.3	-3.6	4.4	3.5
1978	-0.5	-3.7	4.2	4.5
1979	-1.2	-0.8	4.1	-0.3
1980	-2.0	2.1	4.0	-3.1
1981	2.8	-0.4	5.3	1.4
1982	3.5	-5.4	6.7	6.9
1983	1.8	-5.3	2.3	5.6

Source: M. Fry, "Financial structure, monetary policy and economic growth in Hong Kong, Singapore, Taiwan Province of China and Republic of Korea, 1960-1983", in V. Corbo, A. Krueger and F. Ossa, eds., *Export-oriented Development Strategies: The Success of Five Newly Industrializing Countries* (Boulder, Westview Press, 1985), table II.2.

Notes: Deposit interest rates – Simple nominal rate of interest on twelve-month deposits.
Real rate – Nominal rate minus expected inflation.
Expected inflation – Estimated as a polynominal lag of current and past changes in the rate of inflation.

Such contradictory findings may perhaps be explained by the type of foreign capital inflows. Official aid is likely to have a tendency to depress domestic savings while capital flows directed to the manufacturing sector would encourage domestic savings. It can also be argued that export orientation improves the terms of trade of the country and therefore has a positive influence on domestic savings. It has been estimated by Max Fry that a 10 per cent improvement in the terms of trade raises the saving rate by 0.3 to 1 percentage point.[4] Macroeconomic policies also influence the level of domestic savings. Prudent macroeconomic policies of the NIEs created a low-inflation environment that encouraged domestic savings. Prudent management of the government budget also resulted in a higher level of public savings. The relatively more profitable public enterprises in the NIEs boosted public savings further.

Some new arguments have been advanced recently to challenge the conventional view that financial repression has a negative impact on economic development. This view of the "new structuralistic" school in its extreme form maintains that a repressed financial system facilitates economic growth.[5] The approach makes a distinction between a capital market-based and a state-control credit-based financial system. In a capital market-based system, firms borrow by choosing from a broad range of capital and money market instruments offered competitively by a large number of specialized financial institutions. On the other hand, in a credit-based financial system, firms acquire finance mainly from banks in the form of loans. In the developing countries, the major banks are mostly state-owned and results in a state-controlled credit-based financial system. Taiwan Province of China and the Republic of Korea until relatively recently exhibited a typical government-dominated credit-based financial system.

It has been argued that state-dominated, credit-based financial system has distinct advantages. These include the ability to make available a large amount of investment funds without being affected by speculative activities in the capital markets, as well as enabling the government to allocate investment funds in accordance with certain industrial and technological strategies. Another more sophisticated argument is that a state-dominated credit-based financial system operates in practice as an internal capital market which involves less transaction costs than a freely functioning capital market.[6] However, such arguments depend on the existence of a development-oriented state which has the determination

---

4 M. Fry, "Saving, financial intermediation and economic growth in Asia", *Asian Development Review*, 1984, 2(1): 82-102.

5 See R. Wade, "The role of government in overcoming market failure: Taiwan Province of China, Republic of Korea and Japan", in H. Hughes, ed., *Achieving Industrialization in Asia* (Cambridge, Cambridge University Press, 1988); A. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York, Oxford University Press, 1989); and C.H. Lee, "The government financial system, and large private enterprises in the economic development of the Republic of Korea", *World Development*, 1992, 20(2): 187-97.

6 J. Stiglitz, "Financial markets and development", *Oxford Review of Economic Policy*, 1989, 5(4): 55-68.

and wisdom to develop the economy. In many developing countries this condition usually does not exist. In the case of Bangladesh and Nepal, the capital market-based financial system would appear suitable for financing economic development. Financial liberalization should be undertaken gradually and foreign participation should be invited. The issue of prudential regulation of the financial system should be addressed from the very beginning to encourage the development of the capital market.

Foreign direct investment (FDI) supplements domestic savings and has a far reaching impact on the economic development of host countries as it brings with it capital, technology, management and marketing skills and are attracted into the manufacturing sector that enjoys potential or actual comparative advantage. On the other hand, official flows and even commercial loans are often tied to social overheads and sectors which do not enjoy comparative advantage in the recipient countries. In the manufacturing sector which enjoys comparative advantage, the inflow of FDI would result in economies of scale and higher productivity and create linkage effects. Moreover, there are a number of advantages of FDI over other types of financial flows. For example, in the case of FDI, repayment is required only if the venture makes profits and repayment can, to a large extent, be regulated through taxation and other measures. Incentives can be created to encourage reinvestment to minimize repatriation of profits. There is also a closer match between the maturing structures of earnings and repayments.

Generally speaking, the benefits of FDI to host countries are the following: (i) it is a source of capital which is important for countries that are in the early stages of development; (ii) it is a source of new technology, managerial skills and other knowledge; (iii) it is a driving force to foster economic growth through mobilization of domestic resources (e.g. labour); and (iv) it serves as an agent to explore export markets.

FDI played an important role as a source of capital, as well as a supplier of technology and managerial skill in the early stage of development of Hong Kong. For Taiwan Province of China and the Republic of Korea, the goals of attracting FDI were similar, though the emphasis was on acquiring modern technology and marketing skills. Foreign firms also played an important role in assisting these economies to expand their export markets because these firms had good marketing networks.

The experience of the Asian NIEs shows that FDI could promote economic development. In contrast, the Latin American countries suffered from increasing dependence on foreign resources and unemployment and underemployment of domestic resources in their utilization of foreign capital. It seems that the crucial factor explaining such differences is not so much the country of origin or the type of multinational corporation (MNC) that have gone to the developing countries. But rather, the differences are mainly explained by the different development strategies and domestic economic environment of the host country. The experience of the Asian NIEs suggests that the following factors are important in determining the impact of MNCs on host countries:

(a) Development strategy, export-oriented industrialization or import substitution, seems to be crucial. A country adopting an export-oriented strategy has a less protected domestic economic environment so that foreign firms are forced to use resources in an efficient way to maintain international competitiveness. In the earlier literature, it was often argued that technology adaptation was more likely to take place under import-substituting foreign investment than under the export-oriented type. The argument is that owing to the limited size of the market in developing countries, MNC affiliates producing for the local market usually have to scale down the plant size and therefore modify their technology. But the East Asian vis-à-vis Latin American experience of competition under an export-oriented environment is more important in explaining the choice of technology by MNC affiliates. The enclave and monopolistic nature of the economic environment prevailing under an import-substitution regime gives little incentive to adapt foreign technology to local conditions and to achieve maximum efficiency;

(b) To obtain maximum benefits from foreign direct investment, the host country must implement policies to maximize the linkage effects created by foreign firms. This is to ensure a full integration of local firms into the foreign investment sector and to prevent the formation of a foreign enclave leading to foreign dependency;

(c) Investment in human capital is crucial in promoting efficiency of the domestic economic sector and the absorptive capacity of local firms for foreign technology and management skills. Countries with higher investment in human capital will be able to gain more benefits from foreign direct investment and to build up indigenous technological and economic capability;

(d) The host country should create a stable macroeconomic environment with prudent and reasonably consistent macroeconomic policies. This is important if foreign investors are to take a long-term view in their investment decisions. A stable macroeconomic environment is not only important in attracting FDI, but also in maximizing the benefits of FDI.

Thus, the Government's role in maximizing benefits of FDI is important. It is however less clear whether various incentives provided by the Government to attract FDI are equally important. There is a consensus on the importance of general economic environment in attracting foreign investment. A stable and predictable macroeconomic environment arising from political stability and prudent macroeconomic policies is considered to be particularly important.

There is much less consensus on the importance of specific policies to attract FDI. Empirical findings tend to downplay incentive such as tax concessions in attracting FDI. Some studies in the developed countries (notably the United States) conclude that the effect of taxes on FDI is quite strong. Notwithstanding the methodology and data problems of such studies, it is questionable whether a causal relationship for developed countries also

holds for developing countries. Shah and Slemrod in a study in Mexico found that in addition to the tax regime, the general economic conditions and the regulatory environment significantly affected FDI flows to that country.[7] This is easy to understand as tax concessions are important only if a business makes money. Whether a business is profitable depends on the general economic environment and the investment climate. If incentives are provided, the question is whether they should be linked to performance requirements. In many countries, incentives are provided to firms which export a high proportion of their products, have a high local content, or import high-level technologies. However, such policies alone would not bring significant benefits to the host country unless parallel policies are implemented to complement these policies. For example, if the local supply of inputs is inadequate and substandard, it would not be desirable to force firms to use local inputs. There is high competition among countries to attract FDI. Consequently, concessions will be eroded when countries outbid one another.

Bangladesh and Nepal emphasize granting of concessions and relaxation of restrictions to attract a larger inflow of FDI. However, it must be borne in mind that FDI also requires a favourable business and macroeconomic environment.

(iv) Labour market conditions and human resources development

An important reason for the economic success of the Asian NIEs is their labour force which is characterized as flexible, hardworking, well trained and docile.[8] Moreover, there seems to be a high correlation between weak labour movements and export-oriented industrialization. For a variety of reasons trade unions were kept weak in the Republic of Korea, Singapore, and Taiwan Province of China. In Hong Kong, trade unions were weak because they were divided into two camps based on political affiliation. The weak bargaining power of trade unions has often been considered to be a contributory factor to the economic success of the NIEs as it made possible long working hours at relatively low wages. However, from the point of view of Confucian ethics, working long hours is a virtue, reflecting diligence and hard work. While there is no clear-cut evidence to suggest that labour union activities should be curbed at the initial stages of export-oriented industrialization, there is little doubt that a more competitive and flexible labour market is important in maintaining competitiveness in the international market when embarking on the export of manufactured products. It is therefore important for Bangladesh and Nepal to review their labour market conditions and to remove rigidities in the market. A flexible labour market is characterized by relatively low

---

[7] A. Shah, and J. Slemrod, "Do taxes matter for foreign direct investment?", *The World Bank Economic Review*, 1991, 5(3).

[8] H.T. Oshima, "Human resources in East Asia's secular growth", *Economic Development and Cultural Change*, 1988, 36(3): S104-S122.

unemployment rates. This was the case in the Asian NIEs. In 1960, the unemployment rates for Hong Kong and Taiwan Province of China were 1.8 and 2.5 per cent respectively.

The quality of labour is more important than its supply. The Asian NIEs had already a literate and trainable workforce when they embarked on export-oriented industrialization. It has been pointed out that primary school education is crucial for producing a trainable and adaptable labour force for long-term economic growth.[9] Bowman suggests that unless the primary school enrolment ratio is over 80 per cent, the performance of the socio-economic system will be constrained in the long run. In 1960, the primary school enrolment ratio of the Asian NIEs were all significantly above the 80 per cent mark: 87 per cent for Hong Kong, 94 per cent for the Republic of Korea, 111 per cent for Singapore and 96 per cent for Taiwan Province of China (table II.6). In the same year, the adult literacy rates were also relatively high, 71 per cent for Hong Kong, 71 per cent for the Republic of Korea, 50 per cent for Singapore, and 54 per cent for Taiwan Province of China (table II.7). Secondary and tertiary education are less important at the initial stage of economic development, but should

[9] See M.J. Bowman, "Education and economic growth: an overview", in T. King, ed., *Education and Income, World Bank Staff Working Papers*, No. 402 (Washington, D.C., World Bank, 1980); and R.A. Easterlin, "Why isn't the whole world developed?", *Journal of Economic History*, 1984, 44(1): 1-17.

Table II.6. Primary school enrolment ratios, 1960-1985

(Percentage)

Economy	1960	1970	1980	1985
Republic of Korea	94	102	101	96
Taiwan Province of China	96	98	100	101
Hong Kong	87	117	109	105
Singapore	111	105	108	114

Source: A. Chowdhury and I. Islam, *The Newly Industrializing Economies of East Asia* (London, Routledge, 1993), table 9.5.

Table II.7. Adult literacy rates, 1960-1985

(Percentage)

Economy	1960	1970	1980	1985
Republic of Korea	71	88	92	-
Taiwan Province of China	54	85	90	92
Hong Kong	71	77	90	88
Singapore	50	72	84	86

Source: A. Chowdhury and I. Islam, *The Newly Industrializing Economies of East Asia* (London, Routledge, 1993), table 9.6.

develop rapidly as the growth process gains momentum. In the case of Hong Kong, the secondary school enrolment ratio increased from 20 per cent in 1960 to 69 per cent in 1985 and the higher education enrolment ratio went up from 4 per cent in 1960 to 13 per cent in 1985. For Taiwan Province of China, the secondary school enrolment ratio went up from 30 per cent in 1960 to 76 per cent in 1985 and the higher education enrolment ratio increased from 3 per cent in 1960 to 22 per cent in 1985 (table II.8). Investment in human capital in the form of education and training is therefore crucial for rapid economic development.

Table II.8. Secondary and tertiary education enrolment ratios, 1960-1985

Economy	Secondary school enrolment ratio as percentage of relevant age group		Higher education enrolment ratio as percentage of relevant age group	
	1960	1985	1960	1985
Republic of Korea	27	94	5	32
Taiwan Province of China	30	76	3	22
Hong Kong	20	69	4	13
Singapore	32	71	6	12

Source: A. Chowdhury and I. Islam, *The Newly Industrializing Economies of East Asia* (London, Routledge, 1993), table 9.6.

Least developed countries like Bangladesh and Nepal should give high priority to primary education and efforts must be made to increase the literacy rate of the population so that the labour force is trainable and capable of using modern methods of production. Incentive schemes should be devised to minimize absenteeism and to reduce drop-out rates in the rural areas. Promotion of primary education should form an integral part of any rural development programme.

Another important factor in the area of human resources development is the provision of training which meets industrial needs. Hong Kong, and to some extent Taiwan Province of China, depended largely on the private sector to provide on-the-job training for the workforce. For Bangladesh and Nepal where the private sector is relatively weak, it is unlikely that the private sector would be able to provide the required training needs. It is therefore necessary for the Government and international funding agencies to play the lead role in this area. The private sector could, however, play a part in the form of training provided by trade associations. The setting up of statutory bodies as in Hong Kong with initial costs borne by the Government and subsequent running expenses financed by imposing levies on the industry could also be considered. Only when the private sector becomes stronger and labour turn-over becomes slower, could the government reduce its responsibility in providing industrial training.

(v) Macroeconomic management

There is a general consensus on the importance of prudent macroeconomic management in establishing a favourable macroeconomic environment for growth. This is true particularly for Hong Kong, Singapore and Taiwan Province of China in their pursuit of traditional fiscal and monetary policies. Fiscal prudence was maintained in all these economies. As Hong Kong and Singapore are small and open economies, monetary policy has been less actively pursued because it is perceived to be relatively ineffective under such circumstances. In the case of the Republic of Korea, the Government had overall budget deficits for most years during its earlier stage of economic development. However, even in this case, the deficits were mostly financed by borrowing rather than by monetary creation.[10]

Prudent macroeconomic management of the Asian NIEs needs to be viewed in the context of the prevailing circumstances facing these countries at that time. The Asian NIEs adopted export-oriented industrialization at a time when the demand for labour-intensive manufactured products was high in the advanced western economies. Under such circumstances, the main objective of macroeconomic policy was supply-oriented rather than domestic demand stimulation. Thus, the aims of macroeconomic policy at that time were to ensure a realistic exchange rate, a flexible labour market and a stable price level. Least developed countries like Bangladesh and Nepal face less favourable external environment at the present time. Developed country markets are expanding very slowly and traditional fiscal and monetary policies must be relied upon by the least developed countries to respond to frequent external shocks. Hence it is difficult for them to concentrate on supply-oriented macroeconomic policies and they may have to sacrifice some price stability for faster economic growth. The recent experience of China is a case in point. However, there have been cases of developing countries experiencing slow growth with high rates of inflation. A common source of inflation is financing budget deficits by monetary creation and fiscal reform should form a key component of measures to maintain macroeconomic stability.

In most Asian NIEs, the current account was in deficit during the period of rapid economic growth. Such external imbalances are difficult to avoid at the early stage of export-oriented industrialization because of the high demand for imports of foreign materials and capital goods. A similar situation can be observed in the ASEAN countries which achieved significant success in export-oriented industrialization. A "temporary" current account deficit should not be a cause for alarm if the country is growing rapidly and building up its export capability. On the other hand, the huge current account deficits in Bangladesh and Nepal financed largely by foreign aid and concessional loans are not likely to be tenable. An inflow of FDI should be encouraged to narrow the foreign resources gap. Such an inflow would enhance the long-term export capability and promote further economic growth in the two countries.

---

10 R. Dornbusch and Y. Park, "Korean growth policy", *Brookings Papers on Economic Activity*, 1987, No. 2, pp. 389-454.

III. THE RELEVANCE OF AND LESSONS TO BE DRAWN FROM THE EARLY DEVELOPMENT EXPERIENCE OF THE REPUBLIC OF KOREA FOR VANUATU AND SAMOA*

Introduction

The Republic of Korea's economic growth was among the fastest in the world in the last quarter century, during which the country overcame many obstacles and challenges and was transformed from one of the poorest subsistence economies into a leading newly industrializing economy (NIE).

Since it launched its first Five-year Economic Development Plan in 1962, the Republic of Korea's real gross national product (GNP) has expanded by an average of more than 8 per cent per year, growing from US$ 2.3 billion in 1962 to US$ 210.1 billion in 1989, while per capita GNP rose from a meagre US$ 87 to US$ 4,968. This period in the country's development process witnessed a rapid transformation in its industrial structure. The manufacturing sector's share of GNP increased from 14.4 per cent in 1962 to 31.6 per cent in 1988. The country's merchandise trade volume also increased from US$ 500 million to US$ 112.5 billion at current prices, and the ratio of domestic savings to GNP grew from 3.3 per cent to 37.7 per cent during the same period.

The Republic of Korea belongs to the group of East Asian "miracle" economies. Its economic success was the result not only of the effort put in by the Korean private sector but also the product of government policies which consciously sought to maximize exports and growth, and to mobilize the energy of the nation to support its growth policies on macroeconomic management, labour and finance. Those policies transformed the Korean economy, which began to generate surpluses in its current account by 1986. Economic growth exceeded 10 per cent for several years in the 1980s while industrial growth accelerated with expansion of manufactured goods.

Although the Korean economy is now highly developed compared with the least developed countries, certain aspects of the early Korean development experience are relevant to the latter. At the end of the Second World War, the Republic of Korea was no more developed than many of the least developed countries today. As stated already, it was

---

* This paper has been prepared by Professor Suk Bum Yoon, Department of Economics, Yonsei University, Seoul, Republic of Korea. The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the institution with which the author is associated.

among the poorest countries in the world in the early 1950s. Not only was the country separated from the industrial north, it was also devastated during the Korean War. Thus, the resource base of the country was extremely limited when it began its process of economic development.

The division of the Korean peninsula into north and south in 1945 by the Allied Forces and the Korean War which lasted from 1950 through 1953 greatly weakened the base of the Korean economy. While the northern half of the peninsular was endowed with relatively abundant mineral resources, which led to its higher industrialization during the Japanese colonial period, the southern half was more agriculture-oriented. These two contrasting features of the south and the north were complementary and maintained a balanced structure of the colonial Korean economy. With the division of the peninsula, this relationship was severed and the onset of the Korean War extensively damaged the country's economic infrastructure. The large influx of refugees from the north to the south after the division and during the Korean War further exacerbated the problem in the late 1950s and early 1960s.

Food production was inadequate and there was heavy dependence on grain imports, including large amounts of surplus agricultural products from the United States of America. The level of industrial development was low and employment opportunity in the sector was extremely limited. The low per capita GNP, of around US$ 70 in the late 1950s[1] could not generate sufficient domestic savings to attain a growth rate to keep up with population growth, which reached almost 2.7 per cent. Low domestic savings inevitably resulted in low capital formation and consequent low production. This gave rise to a vicious circle of poverty in the economy.

The situation was somewhat similar in other parts of Asia and the Pacific with the exception of Japan, which experienced historical record-breaking economic growth during the Korean War and thereafter. The vicious circle of poverty had to be overcome to escape from stagnation. An explicit policy was therefore adopted to break out of the vicious circle by encouraging surplus countries to invest their idle balances in the country. The "Foreign Investment Promotion Act" enacted in 1962 aimed at encouraging foreign firms and institutions to invest funds either in the form of loans or joint ventures under favourable conditions.

The logic behind the inducement of foreign capital was the expectation that inflow of foreign investment would assist the country by providing greater employment opportunities, encouraging industrial restructuring, strengthening international competitiveness, and enhancing the level of production and income. Higher level of national product, would generate higher domestic savings which in turn will provide resources to repay foreign debts. Table III.1 provides data on the Republic of Korea's economic performance for selected years from 1965 to 1992. As may be observed from the table, the economy displayed considerable growth in domestic

---

1 Bank of Korea, *The Economic Yearbook 1957* (Seoul), pp. 225-226.

production and foreign trade. This achievement has been primarily due to the following factors:

First, the country's high quality human resources should be mentioned. In part this was due to the fact that the country's traditional family values accorded high priority to education.

Second, capital invested in the Republic of Korea has been efficiently utilized.[2] It cannot, of course, be claimed that there has no waste at all. For example, the large investments made in heavy and petrochemical industries in the late 1970s were both economically and technically inefficient and had resulted in a heavy burden of external debts.

Third, the Republic of Korea had judiciously chosen import-substitution and export-promotion in the beginning of the development process. As is well known, the country is poorly endowed with natural resources, and there are only few exportable items from the primary sector. However, goods like cement and chemical fertilizer could be manufactured without relying much on natural resources, even though their production required large-scale fixed capital investment. These two products, among others, may be considered as success of import-substitution in the Republic of Korea. With the accumulation of management skills and technology, the country had expanded import-substitution investment, while gradually initiating export-promotion. Cement and chemical fertilizer in excess of domestic demand could slowly find foreign markets and these industries were gradually transformed from import-substitution to export industries. Textiles represented another sector that experienced transformation from import-substitution to export production.

It may seem that Vanuatu and Samoa do not have much similarity with the situation in the Republic of Korea in its early development stage. First, the Republic of Korea's population is far greater, its physical size is also much larger, and climatic conditions are substantially different. However, there are some similarities. The Republic of Korea's per capita GNP, as indicated in table III.1, was at about the same level as in Vanuatu and Samoa at least upto the late 1960s; the domestic savings rate was also very low, and the trade balance had shown chronic deficit as in Vanuatu and Samoa. The industrial structure of the Republic of Korea during the pre-industrialization period also indicated that agricultural sector occupied a major share as in Vanuatu and Samoa, where the agricultural sector accounts for over 50 per cent of GDP.[3] Likewise the Republic of Korea, as well as these two Pacific island economies faced a dualistic economic structure, where a modern urban sector co-existed with a traditional rural sector.

---

2 Refer to Suk Bum Yoon, "Some considerations on the investment criteria employed in the implementation of the Five-Year Economic Plans of Korea, 1962-1971", *Yonsei Business Review*, vol. 9, No. 2 (August 1972), pp. 152-176.

3 Refer to *National Accounts of Vanuatu 1983-1987* and *National Accounts of Samoa 1984-1986*, compiled by Economics and Development Resources Center, Asian Development Bank, 1990.

Table III.1. Major economic indicators of the economy of the Republic of Korea

	1965	1970	1975	1980	1985	1988	1990	1992
Per capita GNP (at current US$)	94	203	590	1 859	2 194	4 040	2 659	6 749
Domestic savings (as percentage of GNP)	7.5	16.3	17.9	23.1	28.6	38.7	35.1	34.7
Trade volume (at current million US$)	591.5	1 886.4	11 677.4	38 812.1	52 902.0	107 851.0	128 250.8	52 485.2
Trade balance (at current million US$)	-240.3	-922.0	-1 671.4	-4 348.1	-19.0	11 445.4	-2 003.6	-2 141.0
Foreign debt (at current billion US$)	0.2	2.3	8.5	27.2	46.7	31.3	29.1	...

Source: Bank of Korea, *The Economic Yearbook*, various issues.

Vanuatu currently is highly dependent on the traditional rural sector, particularly on export of copra, meat and cocoa while offshore financial centres and other modern activities, largely operated by expatriates, dominate the urban sector. A somewhat similar situation prevails in Samoa. However, because copra and cocoa have been vulnerable to cyclone damage and fluctuating international market prices, foreign exchange earnings from these sources have been unstable. Six cyclones hit Vanuatu in 1991-1992. Harvest losses due to cyclones and declining international prices have drastically reduced exports proceeds of copra and weakened the economy of Vanuatu.[4] But beef export has so far fared better than copra. As indicated in table III.2, the livestock industry experienced a rather high growth rate over the period 1983-1987.

The main problem with the Vanuatu economy is that the service sector, and particularly the government service sector, occupies an extremely large share of the gross domestic product, whereas the share of manufacturing has been negligible. Furthermore, this small manufacturing sector is dominated by expatriates. Diversification of exports and internationalization of industries seem to be an urgent necessity.

Samoa is also vulnerable to external shocks. In 1992, the country experienced a decline in GDP in real terms of 4.3 per cent. This is primarily because of a fall in output and international market prices of its traditional

[4] *Pacific Economic Bulletin*, vol. 8, No. 1 (June 1993), p. 13.

Table III.2. Vanuatu: gross domestic product by industrial origin, 1983-1987

(At constant 1983 prices)

Sector/industry	Million Vatu					Growth rate (percentage)[a]			
	1983	1984	1985	1986p	1987p	1984	1985	1986p	1987p
Agriculture, fishing and forestry	2 649	2 831	2 771	2 605	2 591	6.9	-2.1	-6.0	-0.5
Copra	692	887	741	798	703	28.2	-16.5	7.7	-11.9
Cattle	232	227	241	245	300	-2.2	6.2	1.7	22.4
Cocoa	103	23	78	103	107	-38.8	23.8	32.1	3.9
Coffee	5	3	7	8	6	-40.0	133.3	14.3	-25.0
Poultry/eggs	35	35	39	68	68	0.0	11.4	74.4	0.0
Commercial fishing	550	465	493	242	77	-15.5	6.0	-50.9	-68.2
Vegetables/fruits	13	15	11	8	7	15.4	-26.7	-27.3	-12.5
Subsistence agriculture	975	1 006	1 044	1 065	1 095	3.2	3.8	2.0	2.9
Forestry and logging	45	129	118	69	227	186.7	-8.5	-41.5	229.0
Industry	772	903	940	1 025	1 282	17.0	4.1	9.0	25.1
Manufacturing	311	419	466	467	588	34.7	11.2	0.2	25.9
Electricity	158	191	192	190	180	20.9	0.5	-1.0	-5.3
Construction	303	293	282	368	514	-3.3	-3.8	30.5	39.7
Service	6 729	7 112	7 255	7 121	6 948	5.7	2.0	-1.8	-2.4
Trade, restaurant and hotel	3 627	3 240	3 753	3 518	3 599	3.1	0.3	-6.3	2.3
Transport and communication	757	808	770	741	762	6.7	-4.7	-3.8	2.8
Finance and insurance	819	772	967	1 128	1 087	-5.7	25.3	16.6	-3.6
Real estate, business service	527	587	611	591	534	11.4	4.1	-3.3	-9.6
Government services	1 393	1 542	1 629	1 721	1 614	10.7	5.6	5.6	-6.2
Community, social and personal services	72	72	74	76	79	0.0	2.8	2.7	3.9
Less: Imputed bank service charges	465	410	548	654	727				
GDP at producer's prices	10 150	10 846	10 966	10 751	10 821	6.9	1.1	-2.0	0.7

Source: Asian Development Bank, *National Accounts of Vanuatu, 1983-1987* (January 1990).

[a] Percentage increase over previous year.

export items such as coconut, taro and cocoa. Cyclone Val devastated the agricultural sector in 1991. The balance of payments was adversely affected and the current account deficit rose to 28 per cent of GDP in 1992.

As shown in table III.3, the economic structure of Samoa is highly dependent on the service sector as in the case of Vanuatu. While the manufacturing sector accounts for 15 per cent of GDP, the share of the service sector accounts to almost 50 per cent. This high share is due to heavy reliance on tourism for foreign exchange earnings.

There are some useful lessons that Vanuatu and Samoa can draw from the Korean development experience. The most relevant of these relate to governance, foreign direct investment, industrial policies, macro-economic management, science and technology and trade. These are discussed below.

Table III.3. Samoa: gross domestic product by industrial origin, 1984-1986

(At constant 1984 prices)

	Million Tala			Growth rate (percentage)	
	1984	1985	1986	1984-1985	1985-1986
Agricultural sector	80.3	77.6	75.7	-3.3	-2.5
Agriculture	72.5	69.4	66.2	-4.3	-4.6
Forestry, fishing and mining	7.8	8.2	9.5	5.2	
Industrial sector	37.5	39.4	38.4	5.1	-2.6
Manufacturing	30.9	3.2	31.4	4.5	-2.6
Electricity, gas and water	2.7	2.9	3.0	6.3	2.9
Construction	3.9	4.3	4.0	8.4	-6.9
Service sector	93.9	97.1	98.2	3.4	1.1
Trade, restaurant and hotel	38.4	39.3	39.0	2.5	-0.9
Transport and communication	10.8	11.2	11.8	3.4	5.9
Finance, real estate and business service (net of bank service charge)	7.3	7.8	7.8	7.1	-1.5
Owner-occupied dwellings	12.9	12.9	12.9	0.0	0.0
Government services	18.4	19.4	18.9	5.5	-2.5
Other services	6.2	6.6	7.9	5.5	21.0
Gross domestic product	211.7	214.1	212.2	1.1	-0.9

Source: Asian Development Bank, *National Accounts of Western Samoa, 1984-1986* (February 1990).

A. Governance and the public sector

Industrialization forms a key factor in economic development. With a few exceptions, agriculture and extractive industries, such as farming, fishery and hunting could not substantially contribute to higher production and national income or to create employment opportunities, primarily due to inelastic demand. Industrialization, however, leads to urbanization, which results in changes in traditional life patterns and, in turn affects the social and cultural values of the country. Material welfare may be enhanced with economic development; but there are always high costs to be paid, in terms of losing traditional values, destruction of the natural environment, rise in urban crime, and degeneration of ethical standards.

The Republic of Korea has not been able to avoid these undesirable by-products in the process of its economic development over the past three decades: public water is not potable, rivers are extensively contaminated, and there are concerns about erosion of ethical values. From the very beginning it should be realized that in pursuing economic development conscious efforts should be made to avoid such costs. This should particularly be emphasized in the case of the least developed countries of the South Pacific, where conditions are generally considered idyllic. The countries should guard against ill-planned economic development and unscrupulous commercial exploitation of resources for economic gain. The role of government is extremely important in designing, launching and implementing economic development plans in order to ensure achievement of economic and social development goals.

In this context, one issue relates to the form of Government. It is often claimed that, in order to achieve efficient and rapid industrialization, one needs a benevolent dictator. This is not necessarily true. Benevolence is a difficult concept to define. Every dictator proclaims himself to be a benevolent leader, to be obeyed and relied upon to solve the country's problems. Whatever the forms of Government, it is important that prolonged and unproductive arguments on important economic issues should not delay timely decision-making. Good governance is a necessary condition in achieving economic development.

With a responsible and efficient government, it is less difficult to identify the role of government in the process of economic development. First, there should be a well-defined plan. This requires a good information base. Vanuatu and Samoa have been preparing development plans and the goals seem well defined. However, they both face serious shortcomings in their statistical data base and information. Although demographic statistics are available in both countries, no nation-wide periodic and systematic census has been conducted in these countries and, therefore, basic data such as life expectancy at birth, average household size, etc. seem to be lacking. In the case of Samoa, no recent social account statistics are available, and in the case of Vanuatu, no inter-industry input-output data are available. This is also true with respect to Samoa, where no official national income statistics are estimated. In contrast, the Republic of Korea, prior to the launching of its First Five-year Economic Development Plan, conducted the nation's first population census in 1960 with the assistance

from the United States of America and censuses have been conducted at 10 year intervals thereafter. Moreover, the nation's first official social account statistics and inter-industry input-output tables were estimated by the Bank of Korea in the same year, covering the period from 1953 to 1959.

The Asian Development Bank and the World Bank have provided assistance in national income accounting to Vanuatu and Samoa. This kind of basic statistics are essential in order to design and implement an effective economic development plan. Hence, it is strongly recommended that multilateral donor agencies should continue to support these countries in establishing an efficient system to compile, analyse and present basic data and statistics. The governments of the countries should also actively seek and welcome such assistance. Human resources development and training of local experts should receive priority attention in this endeavour.

Heavy reliance on expatriates in performing essential functions of the economy is undesirable and such dependence should be gradually reduced. In the case of Vanuatu, Ni-Vanuatu participation in manufacturing and service sectors seems to be minimal, and in the case of Samoa, the economy is relying heavily on remittances from Samoans working abroad. This cannot be sustained and the solution lies in indigenous human resources development. Neither Vanuatu or Samoa currently has a compulsory universal elementary education system, even though elementary education is virtually free in both countries. Skilled and well-trained manpower is required to run a government, a firm, or a project. Elementary education is a basic prerequisite. Therefore, it is recommended that a compulsory and free nation-wide elementary education system should be established.

Vanuatu gained its independence in 1980 and Samoa in 1961, and owing to smallness both in territory and population, they are not well known to the world community. It is recommended that the foreign ministries of these two countries should intensify efforts to increase their international exposure and also to expand their diplomatic ties by establishing honorary consular offices in countries with whom they have close trade and economic relations. This measure would not cost much to Vanuatu and Samoa. But their interest would be promoted in these foreign countries and their visibility in the international community would be enhanced. It is also expected that depending upon the effectiveness of honorary consuls, trade and economic ties with other countries will be strengthened. In the early period of the Republic of Korea's independence, the Government was not rich enough to afford many permanent diplomatic missions, and a number of honorary consular offices were established abroad to look after its interests.

Honorary consular offices can disseminate economic information of these two countries, gather information, provide assistance to potential investors, and support tourism development. At the moment, the choice quality of Vanuatu's beef cattle, Samoa's tourism resources, and other attractive characteristics of these countries are not well publicized and consequently not well known. Wider dissemination of information would be mutually beneficial to them as well as to their cooperating partners.

An efficient and timely decision-making is extremely important in economic operations and in running business. This is particularly true in the case of decision-making in foreign capital investment, external trade relations, etc. It is recommended that the decision-making process be made more efficient and prompt as required.

B. Promotion of foreign investment

To facilitate the inflow of foreign investment, the Governments of Vanuatu and Samoa should establish a centralized agency for "one-stop-shopping". Approval, licensing, tax-exemption, land lease or purchase, construction permit, operation, employment policy, remittance etc. in sum, every procedure related to investment and operation, should be dealt with by one specialized central agency representing the Government. This is particularly important considering the land ownership system in Vanuatu and Samoa, which makes efficient land-use difficult for foreign investors. Even though the matter is currently under serious consideration and improvements are being made, a concerted effort is necessary among different government departments and agencies. An efficient and equitable land utilization and protection of interest of Ni-Vanuatu and Western Samoans, who communally own the land, may be realized by establishing a nation-wide unified land development commission, the role of which would include surveying, classification, planning, leasing and contracting on behalf of communal owners and the government. This function may be entrusted to the development bank of the country instead of establishing a new institution.

Vanuatu and Samoa have relatively large government sectors. This is reflected in the contribution of the public sector to GDP.[5] However, considering that these economies will grow and need wider administrative support for development, excessive reduction of the public sector would hamper efficient service necessary for development. Whenever feasible, utilization of local traditional heads of villages would be desirable. Even though the size of the economy is small in these countries, excessive centralization is not desirable and, grass-root participation in the process of development is crucial.

A precise and clearly defined set of foreign investment criteria should be established. *Ad hoc* screening methods would sometimes create unnecessary inconsistency and even arbitrary decision-making, which would adversely affect the economy and foreign investment. Where domestic mobilization of resources is extremely limited as in Vanuatu and Samoa, foreign investment provides a valuable source to finance development projects. However, there are many instances in which foreign investment was not properly utilized. Foreign investment could contribute significantly to economic development if properly and efficiently managed and utilized.

---

5 Asian Development Bank, *Vanuatu: Country Survey* (December, 1992); and The World Bank, *Pacific Island Economies: Toward Efficient and Sustainable Growth*, vol. 8.

Foreign investment should give due consideration to the following aspects:

(a) Contribution to the growth of national income of receiving country.

(b) Contribution to employment of domestic manpower. Unless local manpower is employed, foreign investment will not be indigenized and will be in the hand of expatriates.

(c) Contribution to industrial restructuring. It often happens that foreign investments are brought in to exploit natural resources and when the resources are exhausted, the investment moves out. Over exploitation of natural resources is harmful. Foreign investment should assist a country's transition from primary to secondary production.

(d) Foreign investment should increase foreign exchange earnings through import substitution and export promotion. The goal of foreign investment is to increase economic prosperity through self-reliance.

(e) Foreign investment should transfer new technology into the receiving economy. Mere physical presence of foreign capital will not contribute to development of an economy. A country will encounter the so-called "external limit to growth" unless new technology is embodied in foreign investment. The experience in the Republic of Korea shows that foreign investment with little technology content was short-lived and only exploited national resources.

(g) Foreign investment should have provisions to impart managerial capacity to the host country.

(h) Industry has forward and backward linkages. Foreign investment should be made in limited strategic areas, from which there will be spill-over effects on other industries. In particular, at the initial stage of economic development, an economy cannot afford to invite foreign investment in many areas of industry.

(i) Foreign investment should be gender-sensitive. More than half of the population are women who are economically capable. However, because of traditional beliefs and prejudices, this pool of feminine labour force has not been properly utilized. The experience in the Republic of Korea shows that women are equally productive and more diligent and reliable than men in certain lines of production.

(j) Finally, foreign investment should be environmentally friendly. Foreign investment is often used as a vehicle to transfer environmentally undesirable and polluting industries from industrialized countries to developing countries. Particular attention will have to be given to this aspect of foreign investment by Vanuatu and Samoa.

Simultaneously, it is important to impress upon the Ni-Vanuatu and native Western Samoans that they are capable of establishing and operating business establishments. This can be done by campaigns and training throughout the country. For example, the Vanuatu Melanesian Entrepreneurs and Business Association could initiate such a campaign. Training institutes could also introduce programmes to build confidence among Ni-Vanuatu and native Western Samoans and to encourage their participation in the development process. When the Republic of Korea was under colonial rule, Koreans were accused of laziness and indolence. This was proved to be wrong. It may take some time for Ni-Vanuatu and native Samoans to acquire organizational and marketing skills to operate successful businesses, but there should be no further delay in efforts to promote these skills.

C. Industrial policies

Vanuatu and Samoa are endowed with fertile land and suitable climate for tropical agriculture. Agriculture should at the initial stage of economic development play the role of building an industrial base. Currently, coconut and coconut-related products occupy the largest share in agriculture. Copra and coconut cream are two biggest export items in both economies. However, wide fluctuations of the international market price do not guarantee stable foreign exchange earnings and farm incomes. Measures should be taken to increase value-added by extending processing of coconut meat, copra and coconut cream, by continuously replacing excessively aged trees by better varieties, and by readjusting the copra export system in case of Vanuatu. Currently, the Vanuatu Government subsidizes copra producers by fixing the purchase price. However, duties are levied on copra export.

Aside from coconut related products, there are various other crops for commercial cultivation such as cocoa, coffee and tea in both Vanuatu and Samoa. A promising product is kava (Piper Methysticum). It has already been established that elements contained in it can be used for cosmetics, medicine and other purposes. It is important for the Government to support commercial cultivators and promote exports of kava with scientific assessment of its natural content. Bush nut is another important item to which special attention has to be given by the government. As international attention is more and more focused on natural food and medicine, this precious natural product should be studied more carefully, and feasibility of its commercial production should be examined.

It is unfortunate that almost all of the coffee and tea are exported from Vanuatu and Samoa unprocessed while nearly all of the domestic demand for processed coffee and tea are met by imports. An attempt should be made to internalize the supply of and demand for agricultural products in these two countries. There is already an encouraging sign in this direction in some limited area such as in the case of some hotels where requirements are met by operating their own farms or by obtaining products locally.

Taro is exported mostly to meet the demand of islanders residing in foreign countries. Recently, due to the a poor harvest and cyclone damage, taro export was temporarily interrupted from Samoa. Since the remittances made by islanders living in foreign countries and foreign exchange earnings from taro exports are two important sources of income, effective measures should be taken to assure consistent inflow of foreign exchange from these two sources. If the taro supply is disrupted, the islanders living in foreign countries may change their dietary habits and thereby adversely affect the exports of this food item from the Pacific island countries. Therefore, priority should be given to ensure a steady supply of taro exports to meet foreign demand.

Sweet pumpkin (Cucurbita pepo) is another promising farm product. Tonga is currently producing large quantities of pumpkins for exports to Japan. Vanuatu and Samoa are also starting to produce pumpkins. Care should however be exercised to ensure that the Japanese market is able to absorb additional supplies of this product and the country is willing to import more. Better management of pumpkin farms, if necessary under Japanese guidance is also needed in the initial stage of operation.

The beef cattle industry has been successfully developed in Vanuatu and considering its quality, there are good prospects for its further growth. Samoa may also achieve similar success if the beef cattle industry is properly promoted. It is recommended that leather tanning and dairy processing facilities be also introduced. As noted earlier, inter-industry links should be strengthened to reduce wastage of by-products. It has been observed that most of the hides produced in Vanuatu are exported while tanned leather for Vanuatu's shoe industry is imported at high prices from abroad. It is also true that canned beef is imported although Vanuatu produces good quality beef. There are thus good prospects for import-substitution in these industries.

Furniture industry represents another area that deserves attention as Vanuatu and Samoa are endowed with good quality hardwoods. Owing to geological characteristics of Vanuatu, tanks to collect water are in high demand, and this has naturally contributed to the growth of the fibre glass industry, including the production of fibre glass boats and furniture. Appropriate technology and available local artistic talent, will ensure the development of the furniture industry from its current small-scale stage. Niche-marketing should be adopted to develop the industry at its initial stage.

Jewelry and shell-cutting industry has good potential for further development. This industry, along with native handicrafts, may explicitly be targeted for tourists. Development of jewelry and shell-cutting industry may incorporate pearl culturing. However, pearl culture needs to resolve some basic problems such as management of coastal sea-bed, establishment of exclusive rights to use coastal areas and its adjacent sea-bed, education of local people regarding private poverty rights etc. Perhaps at the initial stage, active government involvement in tackling problems connected with communal ownership of real estate would be desirable, while foreign management skill should also be invited. The traditional fame of the South

Sea pearls should be fully exploited in marketing, particularly aiming at tourists.

Vanuatu used to be a manganese exporter from the Forari Mine on Efate. Vanuatu is also a potential producer of petroleum and gold. Considering Vanuatu's excessive reliance on agriculture, a thorough re-examination of Forari Mine site should be conducted to study the feasibility of commercial operation, with technical assistance from bilateral or multilateral sources. An extensive search should also be made for oil and gold, since it is widely known that geological characteristics of Vanuatu are similar to other oil and gold producing areas in the region. The Vanuatu Government should give consideration to entering into appropriate contracts, in case prospecting is successful, and should provide better information on gold and petroleum to expatriate prospectors. For this purpose, the concerned government department activities should be further expanded in terms of budget and staffing.

Efficient marketing is a crucial prerequisite for distribution of primary agricultural goods. The Republic of Korea has experienced a number of cases of poor marketing which resulted in high prices and scarcity for consumers and low prices and surplus supply for producers. Agricultural marketing is complex because the produce is perishable and cannot be stored for a long time without special equipment and the supply is price inelastic. Difficulty of establishing proper marketing, storage and transportation of agricultural produce has led to a situation in Vanuatu where internal production seems adequate for domestic consumption but large quantities are imported. There is a need to correct this shortcoming by constructing storage facilities, transportation networks and, if necessary, produce collection points such as those affiliated with cooperatives.

As noted above, the manufacturing sector in Vanuatu and Samoa is not well developed. Because of the limited size of population and land area, domestic demand is not large enough to allow investment projects of economic size. Most industries in these island countries are related to agriculture and fishery. Attempts should be made to expand existing industries gradually to a size of a small firm. Ni-Vanuatu and Samoans have to be encouraged to take up regular employment, and manufacturing firms should be legally required to employ a certain minimum number of Ni-Vanuatu and Samoan workers. This minimum should start with a nominal number on a competitive basis as employment guarantee of this nature may result in featherbedding and may discourage participation of those employed by this scheme in management. Ni-Vanuatu and native Western Samoans possess artistic and dexterous craftsmanship skills. Once these skills are properly organized and channelled into productive work, industrialization will be speeded up. However, in order to achieve this goal, a sound work ethic that encourages diligence and devotion to work should be engendered through a well orchestrated campaign and education.

In addition to food-processing, leather tanning, and timber related industries noted above, canning and bottling industries can be further expanded. National Breweries Limited of Vanuatu is currently producing canned drinks, and it is feasible to expand its operations. One of the

earliest industries in the Republic of Korea was a beer brewery, left over by a Japanese firm. In 1953 Oriental Breweries (OB) took over the brewery, and this group has grown into one of the largest business groups by gradually diversifying its operations into other areas. Currently, its products are exported all over the world. At the early stage, when the brewery was in the hands of the Korean entrepreneur, it was difficult to envisage that it would grow into such a large business group. Initially the operation was run by German technicians and later the German-trained Korean experts took over the entire operation.

In addition to beer and soda, the canning operation should develop new products. Tropical fruit flavoured soda drink is one good example currently produced by the canning industry in Vanuatu. The industry should exploit more local fruits, and new varieties of fruits should be introduced for this purpose. Such ventures should receive strong government and external assistance.

Import-substitution possibilities can be exploited in the area of animal feed, particularly chicken feed. There is currently a small scale feed mill in Vanuatu. Mixing chicken feed is not a complicated process. This industry can be further expanded to produce feed for lobsters, abalone, crab etc. Such possibilities also exist in Samoa where conditions are similar to Vanuatu. Even though the share of domestic component in this industry may be small in the beginning, this share can be increased by utilizing waste farm products.

In addition to processing of agricultural products, investment in light labour-intensive industries may also be considered. The textile industry is a good example. Yarn and the textile industry may be a little too complicated as it usually requires large scale operation. Garments, stuffed toys, and knitted wear may be better suited to Vanuatu and Samoa. Textile printing is another possibility. At the moment, most cheap T-shirts sold to tourists are imported from China.

The Yazaki wiring project in Samoa is a good example of an industry that is efficiently organized and run under supervision of a few engineers. As technology is gradually transferred to local managers and engineers, the degree of reliance on foreign imports will be reduced. The same is true with the hydro-electric plant in Afulilo, established by multilateral aid.

D. Macroeconomic management

The concept and practice of savings among Ni-Vanuatu and Samoans are not well established because the favourable natural surrounding provides them with so-called "affluent subsistence". Traditionally, hard work was not needed in these countries to acquire the basic necessities. Without a concerted effort to mobilize domestic resources, it will be difficult to achieve economic development and industrialization. Industrialization may be attained by bringing in expatriate capital, technology and manpower. The current situation in these two countries, particularly in Vanuatu, is characterized by high involvement of expatriates in the development

process. There is thus a need for greater reliance on domestic enterprise and resources.

Domestic savings are not likely to be high when incomes are low. However, it is important to remember that the saving habit must be nurtured. Domestic savings may be classified into three categories: government savings, savings from business firms and savings from households. The Government has mostly experienced deficits in its budgets with growing wage bills for civil servants; household savings are negligible and savings from business firms are mostly not attributable to Ni-Vanuatu and native Western Samoans. Most of deficits are covered by foreign aid, foreign remittances and external borrowing.[6]

The Republic of Korea, for different reasons, had once been characterized as a low saver. Savings in the Republic of Korea were discouraged by low real interest rates, distrust of financial institutions, and wars. Low saving rate was also due to low income. A savings campaign was launched in the middle of the 1960s, when the Republic of Korea's per capita GNP was around US$ 150. The Central Committee for National Savings Promotion was established under the auspices of the Governor of the Bank of Korea, and a nation-wide campaign was launched to increase saving deposits. Saving habit was inculcated among children and model savers were nationally recognized and rewarded. Frugality was also encouraged by imposing high taxes on luxury goods.

A strong will to determine one's own economic future and for self-help is urgently needed among Ni-Vanuatu and native Samoans. Therefore, it will be useful for the Government to initiate a movement to inculcate such values among its citizens. There are both pros and cons for the Saemaul Movement (New Village Movement) in the Republic of Korea, which has been criticized as being used for political purposes, although it has also contributed to improving rural living conditions. Current frank assessment is that the Republic of Korea may not need this sort of movement any more. However, it may be needed for Vanuatu and Samoa at least at the initial stage of economic development.

The gap between interest charged on bank loans and the interest paid on deposits is wide, the lending rate being about 16 per cent in case of Vanuatu Development Bank, while the interest on deposit is negligible. The situation is similar in Samoa. The main reason for this may be high operating costs of banks. The banking sector should also try to develop numerous types of services such as instalment type fixed deposit accounts, pension schemes, long-run deposits, etc., in order to attract more depositors and savings. Loanable funds may also be increased by promoting inter-bank transactions. Increased loanable funds may be channelled into productive investments.

---

6 Sione N. Kioa, "Impact of external resources inflow on the South Pacific island economies", *The Future of Asia-Pacific Economies: Pacific Islands at the Crossroads?*, Rodney V. Cole and Somsak Tambunlertchai, eds. (Sydney, Asian and Pacific Development Centre and National Centre for Development Studies, 1993), pp. 108-134.

The Central Bank of Western Samoa has currently adopted a scheme by which credit expansion is tied to fixed time/savings deposits. This practice is to prevent expansion of liquidity as a result of incoming foreign exchange remittances by Samoans living abroad. As the banking sector will be expanding over the period of economic development and industrialization, banks' reserve ratio should be tied to the total deposit, instead of fixed deposits only. The reserve ratio should closely reflect day-to-day changes in economic activity, and should be flexibly determined by the Central Bank. Credit creation and control should be flexible.

There is currently no income taxation in Vanuatu. Introduction of income tax may result in some resistance at the initial stage. However, income taxation is a useful means to mobilize domestic resources, and can form an important component of fiscal policy. A start could be made by taxing the incomes of successful expatriate businessmen. For the successful introduction of income taxation a group of tax experts should be established to study the situation in Vanuatu. The success of a new system also depends on how the tax can be efficiently collected. The process of levying and collection of income tax is complex and requires special skills.

In the case of the Republic of Korea reliance was placed on foreign investment to make up for low domestic savings in the early stage of development. Efficient use of foreign investment will generate its own savings. The savings created this way may be absorbed into the process of industrialization either as private sector savings or public savings, via taxation.

The National Provident Fund of Vanuatu and Samoa should try to search for profitable investment opportunities instead of concentrating on purchasing risk-free, low-earning government bonds, and the Government should explore other opportunities to sell the bonds. By diversifying investment opportunities for the National Provident Fund and buyers of government bonds, mobilization of domestic savings can be expanded, and more funds would be available for various projects under the national economic development plans. The National Provident Fund may, in this way, play the role of a long-run credit bank to finance projects with long gestation periods. Since the development banks are mainly engaged in making loans to investors with funds provided by the Asian Development Bank, it seems appropriate to merge the National Provident Fund and Development Bank into one institution to economize operations and to rationalize functions. Banking and fund management, either private or public, should look for prospective suppliers and users of funds. The main role of banking and finance sector should be the creation of supply of and demand for funds, and not simply to distribute among institutionally created agents. This would be particularly true when the funding from institutions like the Asian Development Bank is reduced.

Offshore financial centres are very important for Vanuatu and Samoa. Their activities not only generate revenue for the Government but also create local employment opportunities. The Government should carefully study how it can maximize the revenue from licensing fees. Price elasticity of offshore financial firms with regard to licensing fees seems fairly

inelastic at the moment and it would be safe. If this is so, the Government may gradually increase license fees in consultation with other Pacific countries in a similar situation.

Frequent changes in business laws and regulations may discourage offshore financial firms. In order to ensure regular inflow of foreign exchange earnings the governing principle should be one of non-interference. Business security should be guaranteed. In addition, a long-term plan to reduce communication cost should also be established. In the event of a change in government, the new Government should honour the business commitments made by the previous Government.

A thorough study should be conducted to improve administrative capacity in the public sector. Considering the size of the economies, the public service sector occupies a preponderant share of the gross national product. Duplication and overlapping of administrative functions should be avoided. It would be difficult to lay off public sector staff. However, the Government can realize the same goal of reducing the size of the public sector through attrition. It should also be noted that there is a tendency in the public administration to expand operations and to create new posts. Once this gains momentum, it is difficult to control. Establishment of *ad hoc* committees without permanent posting would be one of the ways to take care of emerging issues. Committees may include not only civil servants but experts and specialists from the private sector. The experience of the Republic of Korea shows that increasing reliance on services of specialists from the private sector not only reduces the burden on the public sector but also results in making more effective use of talent and experience available in the country to promote economic development.

E. Science and technology

The Government played a crucial role in mobilizing science and technology to accelerate economic development in the Republic of Korea. The major elements of the policy guidelines for the 1970s included the provision of a secure foundation for scientific and technological growth, strategic development of industrial technology and the creation of a favourable climate for science and technology.

A three-pronged plan was adopted, emphasizing capability building particularly comprehensive scientific manpower development, accelerated introduction of advanced technologies from abroad, and promotion of domestic reseach and development (R and D) activities. To implement this development plan successfully, the Government provided various means of institutional, financial and legal support.

The Republic of Korea emphasized domestic R and D rather than injections of technology from developed countries since that was a prerequisite in enhancing the necessary technological capability to make it possible to take advantage of foreign technologies. The local generation of technology is not only possible but also more economical if proper policies

are pursued, the most important of which relate to human resources development. The right people are required more than anything else since they are the ones who can change the methods and the milieu.

Hence, the Republic of Korea launched a national movement for the popularization of science and technology as an integral part of its long-range development plan. Its aim was to motivate a universal desire for scientific innovation among the people in their daily life. Its basic goal was to reorient public attitudes towards industrialization through technology development.

The driving force behind the Republic of Korea's phenomenal advancement has been provided by political leadership. Several important laws were enacted to promote the development of science and technology. For example, the Science and Technology Advancement Law of 1967 defined the basic commitment of the Government to support and to provide policy guidelines and leadership in technological development for industrialization. In addition, the late President Park Chung Hee used to visit the Korea Institute of Science and Technology (KIST) every month. Founded in 1966 as an autonomous multi-disciplinary industrial research institute and chartered as a contract research organization, KIST has successfully served its role as an intermediary in industrial technology development.

It is difficult to imagine any least developed country successfully getting out of its poverty trap without developing a credible scientific and technological capability. For this reason Vanuatu and Samoa may wish to draw lessons from the Republic of Korea's early policy on science and technology. Obviously the first step should be to develop a science and technology culture. A country's science and technology can strike deep roots only when the soil and climate are favourable for their growth, and only with deep roots can they grow sufficiently to contribute to the national development and improve living standards. Since the popularization of science and technology still has a long way to go in Vanuatu and Samoa, there is a need to make science a way of life for the islanders as well as a means of accelerating industrial development. In order to achieve this objective the Pacific island developing countries should continue to create an environment conducive to scientific creativity and technological innovation.

At the same time a science and technology infrastructure must be created to support industrial technology development. The Pacific island developing countries may wish to consider the establishment of counterpart to the Korea Institute of Science and Technology (KIST) which played a critical role in developing Korean science and technology. The functions of a corresponding institute in the Pacific should be strengthened so that it will emerge as the most prestigious institute serving the Pacific island developing countries. Such an institute should concentrate on setting standards and coordinating the various research activities in the Pacific. At a later stage, a new integrated industrial research institute may be created to carry out specialized research in fisheries, biotechnology, chemical engineering and information technology.

No one believed that the Republic of Korea would be successful in fostering and eventually exporting technology-intensive goods such as automobiles, and electronic and steel products, when the country started to protect these industries. Infant domestic industries should be protected from foreign competition but gradually liberalized and exposed to international competition. It was difficult to conceive that Korean Air would be ranked among the ten largest airlines in the world when it struggled in its early stage as a state enterprise supported by government subsidies. Air Vanuatu will grow and prosper if properly managed although receiving subsidies. However, the subsidy should not extend beyond a certain time period. In addition, a privatization plan should also be established for the airline.

Substantial trade liberalization has already been initiated in Vanuatu and Samoa. However, in order to address chronic deficits in the balance of payments, import substitution and export promotion strategies should be more effectively pursued. In this context, an effective method in the Republic of Korea's experience is that of granting a special bonus to the firm which first produced an import-substituting good, and later succeeded to export. The grant of bonuses can take many forms; providing loans under favourable terms, granting a licence for monopoly for a certain time period, or simple citation of achievement which guarantees government support to the firm. When the Republic of Korea's exports were mostly concentrated on primary goods and the market for them consisted of a few countries, such an incentive scheme encouraged businessmen to search for new markets and to introduce new products. At a later stage, the Government designated a day in the year as "Export Day", when medals and citations were awarded to the firms which had accomplished either high growth rates of export or had attained a high export volume.

Tariff and quota systems do not always work successfully unless careful preliminary studies are conducted regarding selection of industries and rates. In the early stage of economic development, a country usually has comparative advantage in primary industries as in agriculture, mining and fishery. In order to foster infant industries imports of certain kinds of goods and services could be limited, but the industries to be protected should be carefully selected on the basis of capacity and potential. Most of the industries which are natural resource based would be strong candidates for such protection.

The experience of the Republic of Korea regarding foreign exchange controls indicate that a fixed exchange rate system could not provide sufficient flexibility. Particularly for a small economy which relies on external markets, a freer foreign exchange system seems more desirable, along with a well-managed domestic monetary system. Countries like Bhutan and Brunei Darussalam are currently linking their currencies with the Indian Rupee and the Singaporean dollar respectively, primarily to maintain greater stability of the currencies. Their experience may be of relevance for Vanuatu and Samoa.

In view of the small size of most Pacific island developing economies, it is recommended that the South Pacific Forum or South Pacific

Commission be further strengthened to promote a free trade zone or common market among the Pacific island countries. The possibility of establishing subregional cooperative arrangements among Melanesian and Micronesian countries can also be explored. It is necessary for small and isolated countries in the Pacific to strengthen their economic position *vis-à-vis* outside partner countries through such cooperative arrangements.

F. Summary and conclusions

As an economy develops, wealth is accumulated, per capita income grows, industrial structure changes, and urbanization increases. In order to attain economic development a strong will and purpose on the part of national leaders and people is necessary. Once national concensus is reached, a strong and committed leadership is needed for guidance towards achieving the goals that have been set.

People's participation in the process of economic development is important as it is a human-oriented process. To encourage people's participation, greater attention should be given to elementary education and occupational training. This can be attained by investment both in terms of capital and human resources in education. Economic development process is driven by human factors.

From the beginning of development planning, a conscious effort should be made at sustainable development and proper utilization of female potential. This was not the case in the Republic of Korea and it is one of the shortcomings which Vanuatu and Samoa should avoid.

In macroeconomic management and industrial development, it is always important to exploit one's comparative advantage. Macroeconomic policies should encourage mobilization of domestic savings, efficient utilization of national financial resources, creation of employment and maintenance of economic stability. However, the decision makers should also bear in mind that infant industries should be protected from foreign competition for a reasonable period of time.

In conclusion, there is much which the least developed countries can learn from Republic of Korea's early development experience since the country at the early stage of its development exhibited most of the attributes of a least developed country. Although the "miracle" achieved in the Republic of Korea is unlikely to be replicated in exactly the same way in the least developed countries, there are useful lessons for accelerating development of the least developed countries as well as those that should be avoided.

This publication may be obtained from:

Director
Development Research and Policy Analysis Division
Economic and Social Commission for Asia and the Pacific
The United Nations Building
Rajadamnern Avenue
Bangkok 10200, Thailand

Tel: (662) 288-1610
Fax: (662) 288-1000
Telex: 82392 ESCAP TH, 82315 ESCAP TH
Cable: ESCAP BANGKOK